

**Provision of gas connection services by  
Transco**

**Update document**

March 2003

## Summary

This update document summarises the responses received to Ofgem's November 2002 consultation 'The provision of gas connection services by Transco'. The November consultation followed a number of complaints relating to Transco's quality of service for connections services.

Ofgem's initial view, following the consultation, is that the 1999 Enforcement Order (the Order) no longer adequately addresses all the areas of service which concern customers. Ofgem considers that until there is full and effective competition in the gas connections market, regulatory action is required to provide an ongoing incentive to Transco to improve its standards of service. Therefore, Ofgem intends to consult shortly on the preferred form of regulatory action such as a new licence condition and/or other measures to provide this ongoing incentive to Transco.

The majority of respondents to Ofgem's November 2002 consultation expressed the view that Transco's delivery of connection services is inadequate in one or more respects. This supported the original views expressed which led to the November 2002 consultation exercise. A number of respondents believed that Transco was in breach of the Order although none of these respondents provided factual evidence to confirm such an allegation.

The majority of respondents expressed the view that the Order has created a culture where Transco focuses on avoiding the nominal penalties in the Order rather than increasing its service levels in respect of connections generally. This is reported to be due to the Order setting a minimum level of service which Transco uses as its baseline.

The majority of respondents also stated that in the long term the introduction of competition in gas connection services would alleviate the issues raised in the consultation. However, in the short term, the respondents felt that action by Ofgem was required to further improve Transco's connection services.

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# 1. Introduction

1.1. In November 2002, Ofgem consulted on the provision of gas connection services by Transco. The consultation asked customers of Transco's connection services to provide comment in respect of:

- Transco's compliance with the provisions of the 1999 Enforcement Order (the Order)
- the accuracy of quotations received from Transco for the provision of infrastructure and self lay connections services provided by Utility Infrastructure Providers (UIPs)
- the timeliness of effective response to queries in respect of existing quotations
- timely attendance on site and effective undertaking of siteworks and
- non-cost reflective charging

1.2. The consultation asked respondents to provide supporting data in the form of particular connection jobs, including Transco job reference number, nature of problem and resolution of problem. The consultation also welcomed views on Transco's connections performance and policies generally since the Order was imposed. This consultation followed a number of complaints regarding Transco's level of performance. The principal purpose of the consultation was to establish whether these complaints were isolated incidents or indicated more widespread shortcomings in Transco's provision of connection services.

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

1.3. Following the consultation it is clear to Ofgem that there are a number of shortcomings in Transco's provision of connection services. It is also clear that although the Order did achieve a sustained improvement in Transco's quality of service in terms of the timeliness of provision of quotations, the Order does not now adequately address all the areas of service which concern customers. Ofgem considers that in the short term, regulatory action is required to provide an ongoing incentive to Transco to improve its quality of service.

- 1.4. Ofgem is considering replacement of the Order with a wider ranging licence condition combined with other options such as expanding the scope of the existing guaranteed and overall standards of performance.
- 1.5. The responses to the November consultation document did not provide conclusive evidence that Transco is in breach of any statutory requirement, including the Order. However, Ofgem's investigation into whether Transco is in breach of any statutory requirements is ongoing (see paragraph 3.1). Any new licence condition and/or other measures will follow further consultation by Ofgem in the near future.
- 1.6. This update document provides a brief summary of the responses received to the consultation and the next steps Ofgem intends to take.

## 2. Summary of responses

- 2.1. Ofgem received 13 responses. The majority of responses came from Gas Transporters (GTs) (8 respondents) followed by Shippers/Suppliers (3 respondents) and UIPs (2 respondents). Of these, eight respondents provided supporting factual evidence.
- 2.2. As stated in paragraph 1.1 above, the November 2002 consultation focused on a number of issues. These issues are considered in turn below with a summary of the responses received in respect of each issue.

### ***Compliance with the 1999 Enforcement Order.***

#### ***Respondents' views:***

- 2.3. One respondent stated that the compensation scheme appears to be effective and that its requests for connections services were received within the allowed standard.
- 2.4. The majority of respondents reported that the Order had failed to deliver a continuing improvement in Transco's provision of connections services, principally due to the Order focusing Transco's performance in only certain areas of connection services. Respondents reported that the Order was not providing the right incentives for Transco to improve its performance. Certain respondents reported that, despite Transco meeting its national planned performance levels of 90% as required by the Order, individual respondents were not receiving a 90% performance level. Respondents also had concerns over the time and cost of chasing Transco for quotation responses which were outside the planned performance level set by the Order (see paragraph 2.10 below).
- 2.5. Two respondents stated that Transco was not performing to the required Connection Standard of Service (CSOS) standard as required by the Order and therefore believed that Transco was not in compliance with the Order. One of these respondents believed that Transco logged the quotation request a day after it was actually received, whilst the other respondent believed that Transco was pre-dating quotations (dating quotations earlier than sending them out) in order

to improve its performance figures. However, neither respondent provided any factual evidence to support these allegations.

- 2.6. One respondent also raised concerns over Transco's use of the deferral process when a quotation required a site visit.

***Transco's view:***

- 2.7. Transco stated that it is compliant with the Order. Transco provided data to Ofgem to show its performance since the Order was imposed. This data indicates a trend of improvement since 1999 when performance was as low as 50% compared to a current average performance of 95% for quotations issued within the allowed turnaround time. The data also indicated that in 2002, 15 out of 15 individual standards were achieved in comparison to 1999 when 9 out of 15 individual standards were met.

***The accuracy of quotations received from Transco.***

***Respondents' views:***

- 2.8. Five respondents stated they had experienced difficulty in receiving accurate quotations from Transco. Four respondents provided factual evidence of cases where inaccurate quotations had been provided. One of these respondents raised the concern that inaccurate network analysis and 'over-design' was a prime cause of inaccurate quotations.

***Transco's view:***

- 2.9. Transco provided data on the accuracy audit which it is required to carry out under the Order. This data indicates a trend of improvement since 1999 when the average accuracy of audited quotations that were within 10% of the original quotation was 75%. In the last 12 months average accuracy of audited quotations that were within 10% of the original quotation has been at 95%. Transco also provided data on its accuracy scheme which it is required to operate under the Order. This showed that since April 1999 Transco has processed 774 formal challenges of which 16% were found to be inaccurate.

## ***Timeliness of effective response to queries in respect of existing quotations.***

### ***Respondents' views:***

- 2.10. The majority of respondents reported difficulties in obtaining quotations. These difficulties were in the main; quotations that were inaccurate or quotations that were not produced within the standards of performance levels set out by the Order. Respondents raised concerns over the time and resource costs involved in chasing these queries or quotations. Four respondents provided factual evidence illustrating the difficulties encountered.
- 2.11. One respondent, who did not provide supporting evidence, believed that poor project management with little ownership of problems appears to reduce Transco's ability to resolve problems quickly. This respondent also questioned Transco's assertion that complaints regarding existing quotations are reducing. This respondent felt that Transco logs complaints inconsistently and therefore bases its assertions on incorrect data.

### ***Transco's views:***

- 2.12. Transco provided statistics showing a reduction in complaints regarding existing quotations. The data provided indicated that since 2000, general complaints regarding queries were below 5%. The data also indicated that since 2000 complaints regarding UIP quotations were at over 15% and had reduced to just over 5% in 2002.

## ***Timely attendance on site and effective undertaking and completion of siteworks.***

### ***Respondents' views:***

- 2.13. The majority of respondents stated that they were experiencing difficulties with the effective completion of siteworks and this was a key area of concern. Again concern was raised over the resource costs associated with chasing Transco for



siteworks completion. Of the ten respondents reporting problems, five provided factual evidence to support their assertions.

- 2.14. Respondents felt there was a general inefficiency in work planning and timetabling of siteworks. Concerns were raised over unreasonably long lead times. One respondent gave 24 examples of long lead times and another respondent stated examples of lead times ranging from 150 – 200 days for relatively simple siteworks jobs. In addition, there were major concerns over Transco's ability to meet any timetable that it set with many respondents experiencing regular 'no shows' or cancellations. In total, 46 examples were provided of delayed siteworks. Nine examples included cases where Transco was unsure whether siteworks had been carried out or had stated siteworks had been completed when this was not the case.
- 2.15. Three respondents felt that improvements could be made in the effective completion of siteworks through more robust performance levels for attendance and completion of siteworks.

### ***Transco's views:***

- 2.16. Transco stated it had introduced a voluntary post-acceptance monitoring scheme for planning letters (confirming appointment dates). Transco also stated that liquidated damages were payable under the siteworks contract to compensate customers for delayed works. In relation to UIPs and GTs, Transco reported that the final connections scheme which enables UIPs and GTs to make final connections to Transco's below 7 barg network will reduce reliance on Transco for on-site attendance.

### ***Non-cost reflective charging***

#### ***Respondents' views:***

- 2.17. Two respondents commented on this issue. One respondent provided an example of how the final connection charge was not reflective of the work carried out.

### ***Transco's views:***

2.18. Transco stated that its charges for connection related activities have been established through the Engineering Period Contract (EPC). The award of the EPC followed a fully competitive tender process consistent with the terms of EU procurement legislation. Transco states that since the establishment of the EPC Transco has been working to ensure the principles of non discriminating pricing are consistently applied. In particular Transco has undertaken a comprehensive price disaggregation to reduce the adverse impact of non-cost reflective charges.

### ***Other issues***

2.19. Other issues raised by respondents included:

- the accuracy of Transco's records and the safety issues associated with these;
- the general relationship between Transco and its service provider Fulcrum Connections and the apparent lack of problem ownership by either company to enable queries to be resolved efficiently;
- work by Ofgem to enable competition in one-off connections to improve the provision of connection services and
- addressing the 10 metre rule to encourage competition in one-off connections

### ***Overall summary of responses:***

2.20. The overall view from the responses received to Ofgem's consultation is one of customer dissatisfaction with Transco's connection services. Despite the Order respondents are still suffering from delays in quotations. Respondents also confirmed that there were issues and areas of concern which fell outside of the Order. The majority of respondents believed that Transco's delivery of connection services is inadequate and that the Order may have created a culture within Transco of focusing on avoiding the nominal penalties in the Order rather than increasing general service levels. This is believed to be due to the Order setting a minimum level of service which Transco uses as its baseline performance.

- 2.21. Many of the respondents recognised that in the longer term, effective competition in gas connections would resolve many of the concerns raised in their responses. However, in the short term, significant improvements to Transco's services through Ofgem's intervention were required.
- 2.22. Transco responded to the consultation stating that it had complied with the Order and that since the Order had been implemented Transco's performance in relation to connection services had consistently improved. Transco also recognised that facilitating competition in one-off gas connections was an important step in improving services to consumers.
- 2.23. In general the factual data provided by respondents was limited. One respondent's data has provided scope for investigation by Ofgem in relation to Transco's use of the deferral system (see paragraph 2.6 above).

### **3. Other evidence**

- 3.1. The complaints that led to the original consultation exercise in November 2002 are being investigated individually. These investigations are ongoing and will assist in forming Ofgem's view on the regulatory action to be taken.

## 4. Next steps timetable

- 4.1. Ofgem will issue a consultation document on the preferred form of regulatory action such as a new licence condition and/or other measures within 8 weeks.
- 4.2. Ofgem will continue to investigate the individual complaints and the conclusions of these will inform the decision making process to address the concerns raised.
- 4.3. Ofgem will investigate the issue of Transco's use of the deferrals process.
- 4.4. Ofgem will consult on extending competition into one-off gas connections, looking specifically at the 10 metre rule and planning concerns within 4 weeks.