

Contents

| | Page |
|---|-------------|
| 1. Introduction | 2 |
| 2. Background | 4 |
| 3. BGT's Tariffs | 11 |
| 4. Development of Domestic Competition | 20 |
| 5. Future Development of Competition | 50 |
| 6. Summary | 69 |
| Appendix 1 Director General's Section 4 Duties | 73 |
| Appendix 2 Domestic Supply Licence Conditions in Respect of Social Obligations | 75 |
| Appendix 3 Data Provided in Suppliers' Statement of Compliance | 78 |
| Appendix 4 Licenced Domestic Gas Suppliers | 80 |
| Appendix 5 Joint Policy Statement from Offer and Ofgas on Dual Fuel Issues | 82 |

1. Introduction

British Gas Trading's (BGT's) statutory monopoly to supply gas throughout Great Britain to domestic customers (defined as those customers consuming at or below 2,500 therms of gas a year) has been gradually removed with competition being phased in between 29 April 1996 and 27 May 1998. This document sets out Ofgas' conclusions to our review of the domestic competitive gas supply market. It considers the development of competition to date and analyses the prospects for its further development.

Chapter 2 gives background on the phased introduction of competition and outlines the regulatory framework against which competition has been introduced. Chapter 3 summarises recent changes which have been made to BGT's tariffs, and gives Ofgas' decision following the Gas Consumers Council's (GCC's) reference to the Director General of Gas Supply (DGGs) on 16 September 1997 asking her to consider whether BGT's proposed price reductions from January 1998 constituted predatory pricing.

Chapter 4 describes the development of domestic competition to date, using information obtained from surveys of customers and suppliers and from Transco. Chapter 5 analyses the prospects for the further development of competition, identifies obstacles which may inhibit its development and consults on possible remedies.

Chapter 6 gives Ofgas' summary.

It would be helpful to receive responses to the issues raised in this document by 1 December 1998. It is open to respondents to mark all or part of their responses as confidential. However, we would prefer, as far as possible, that responses were provided in a form that can be placed in Ofgas' library. Responses should be addressed to:

Dr Eileen Marshall CBE
Deputy Director General
Office of Gas Supply
Stockley House
130 Wilton Road
London SW1V 1LQ.

If you have any queries concerning this consultation then Mr Christopher Offer on 0171 932 5901 will be pleased to help.

2. Background

2.1 *The Phased Introduction of Competition*

The Gas Act 1995 provided for competition to be extended into the domestic gas supply market throughout Great Britain. It established the framework within which the DGGS could determine the timing of the introduction of domestic market competition, in accordance with an Order made by the Secretary of State for Trade and Industry and subject to a back-stop date of the end of 1998.

In accordance with section 6 of the Gas Act 1995, the Secretary of State set out by Order, in March 1996, the detailed framework within which the DGGS could determine the dates when each of three phases of competition could be introduced. The Order provided for a first phase (Devon, Cornwall and Somerset) in 1996, a second phase (Avon, Dorset, Kent and Sussex) in 1997, with competition throughout Great Britain starting on a single date between 1 January 1998 and 31 December 1998.

The first phase of competition began on 29 April 1996 and involved around 500,000 customers in the South West of England (Devon, Cornwall and Somerset). The second phase of competition began in Dorset and the former county of Avon on 10 February 1997, involving around 600,000 customers, and was extended to a further 900,000 households in East and West Sussex and Kent on 7 March 1997.

The policy of having a single date for the remainder of Great Britain was modified by the Gas (Extent of Domestic Supply Licences) Order 1997. That Order split the remainder of Great Britain into six tranches. It gave the DGGS the power to determine the dates of opening for each tranche in sequence. However, it specified that the first tranche was not to open before 1 October 1997 and that the next four tranches would not begin before 1 January 1998. The final tranche could not start before 1 April 1998.

Tranche 1 was opened for competition from 1 November 1997, covering Scotland and the counties of Durham, Hartlepool, Middlesborough, Northumberland, Redcar and Cleveland, Stockton-on-Tees and Tyne and Wear and comprising about 2.5 million customers.

Tranche 2 was opened for competition from 27 February 1998, covering the counties of Cumbria, Greater Manchester, Merseyside, the City of Kingston-upon-Hull, Lancashire, the East Riding of Yorkshire, North Yorkshire and York, and comprising about 2.8 million customers.

Tranche 3 was opened for competition from 27 March 1998, covering the counties of Cheshire, Derbyshire, North Lincolnshire, North East Lincolnshire, Nottinghamshire, Shropshire, Staffordshire, South Yorkshire and West Yorkshire, and comprising about 2.9 million customers.

Tranche 4 was opened for competition from 24 April 1998 covering Wales and the counties of Gloucestershire, Hereford and Worcester, Leicestershire, Oxfordshire, Warwickshire, West Midlands and Wiltshire and comprising about 3.5 million customers.

Tranche 5 was opened for competition from 22 May 1998 covering the counties of Bedfordshire, Berkshire, Buckinghamshire, Cambridgeshire, Essex, Hampshire, Hertfordshire, the Isle of Wight, Lincolnshire, Norfolk, Northamptonshire and Suffolk and comprising about 3.1 million customers.

Tranche 6 was opened for competition from 23 May 1998 covering the remainder of Great Britain (i.e. Greater London and Surrey) and comprising about 3.2 million customers.

Ofgas has actively managed the transition to competition to seek to ensure that the transfer of customers to their chosen supplier is as trouble free as possible. Large numbers of customers have sought to take their gas supply from a new supplier as soon as an area was opened to competition. To deal with these initially large numbers of transfers, Ofgas has worked with Transco, BGT and new domestic suppliers to make sure that the number of customers being transferred each day is within the capability of the IT systems.

2.2 Marketing

Direct marketing to customers in their homes ('doorstep selling') has been used by many gas suppliers to establish their presence in the market.

Independent research commissioned by Ofgas (discussed in Chapter 4) shows that the majority of people welcome the opportunity for face-to-face contact provided by doorstep selling and that it has particularly helped lower income customers to benefit from competition. Even so, Ofgas has received complaints about some doorstep selling tactics. Although the proportion of

complaints compared to the level of activity by suppliers has been small, Ofgas has been determined to protect the customer against abuse of the privilege of selling to him or her direct at home. The industry has developed increasingly comprehensive levels of self-regulation in this area and these efforts have been welcomed by Ofgas as a useful step towards regulation of marketing activity.

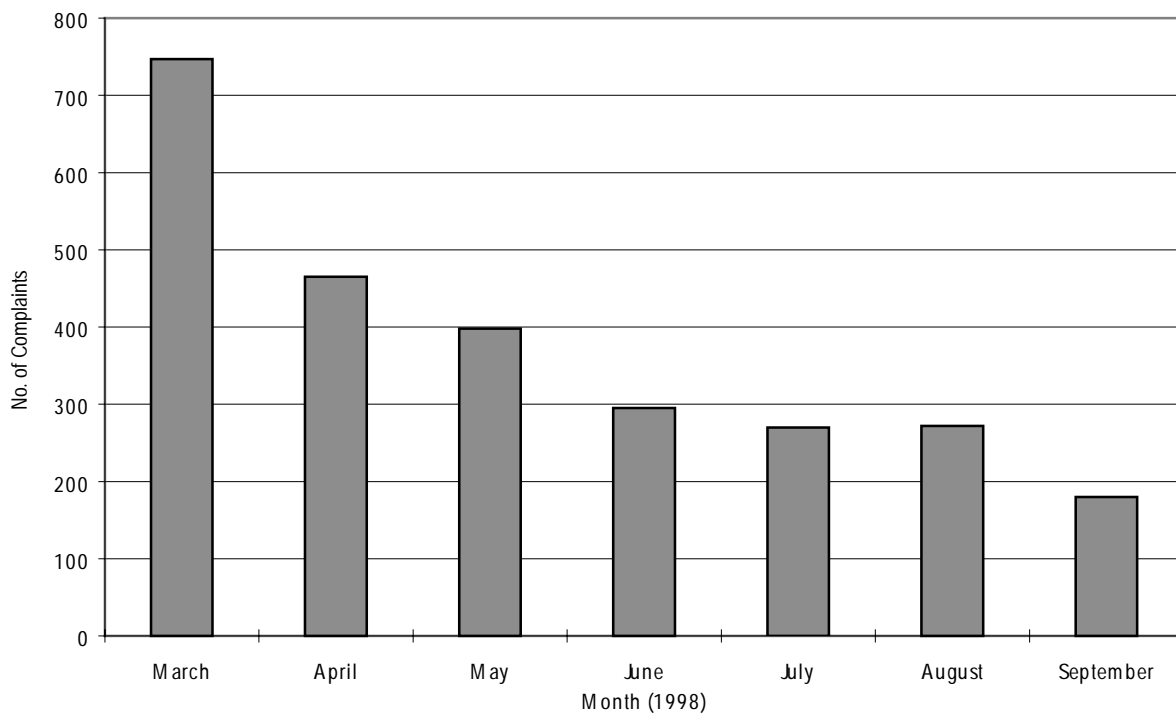
However, as competition was about to be introduced throughout Great Britain, Ofgas considered that a more formal method of controlling marketing was needed. In October 1997, Ofgas published a consultation document¹ which proposed a modification to the standard conditions of the Gas Suppliers' Licence to establish a range of basic principles for the conduct of direct marketing. The proposal was accepted by the industry with all domestic suppliers giving their consent to the licence modification. The new condition was added to all suppliers' licences in January 1998. Ofgas is able to use its formal powers of investigation where it suspects that the licence condition has not been met and take enforcement action if required.

Following an Ofgas investigation into the activities of Northern Electric plc, Ofgas issued a provisional enforcement order on 12 March 1998, requiring the company to improve its doorstep selling procedures. The order was not confirmed, as prompt remedial action was taken by Northern Electric following the investigation. Ofgas also investigated a complaint made in May against Eastern Natural Gas Ltd. The company was cleared of allegations of fraudulent behaviour, but it gave undertakings to improve its selling methods.

Doorstep selling complaints received by Ofgas have been falling since March 1998, which coincides with tighter monitoring of sales activities by suppliers. Monthly totals are illustrated in figure 1 below.

¹ 'Marketing of gas to domestic customers. Licence Modification – A Consultation Document', Ofgas, October 1997.

Figure 1 - Doorstep Selling Complaints Received by Ofgas since March 1998



Source: Ofgas

2.3 Regulatory Framework

2.3.1 Gas Act 1986

The DGGS must exercise the functions assigned to her under the Gas Act 1986 (as amended by the Gas Act 1995) in the manner which is best calculated to fulfill the duties described in section 4 of the Gas Act. These duties include a duty to secure effective competition in the supply of gas. See Appendix 1 for a full list of section 4 duties.

2.3.2 Competition Legislation

The DGGS has concurrent powers with the Director General of Fair Trading under the Fair Trading Act 1973 and the Competition Act 1980. In relation to these concurrent powers Ofgas works in conjunction with the Office of Fair Trading (OFT) under the terms of the Ofgas/OFT Concordat. In exercising her functions under the competition legislation, the DGGS must act in accordance with her section 4 duties under the Gas Act 1986 (as amended by the Gas Act 1995).

2.3.3 Gas Suppliers' Licence

The Gas Act 1986 (as amended by the Gas Act 1995) provides for the licensing of gas suppliers. The licence comprises a number of standard conditions which apply to all domestic gas suppliers.

a) General Obligations

All suppliers are obliged to supply (and continue to supply) gas in the areas covered by their licences to every domestic customer who requests such a supply at premises connected to the system. In addition each supplier must make available its terms of supply on request.

Suppliers are required to offer payment by a range of methods, including cash, cheque or postal order. Suppliers are not bound to offer contracts to supply through a pre-payment meter, since they are entitled to insist on a credit meter, but they must offer a pre-payment meter as an alternative to a cash deposit, and as an option prior to disconnection.

Suppliers are also required to observe certain procedures prior to exercising their statutory power to enter customers' premises. In particular, they are required to ensure that only authorised personnel exercise these rights.

b) Marketing

As noted in section 2.2 a new standard condition was added to all suppliers' licences in January 1998 to establish basic principles for the conduct of direct marketing. The new licence condition covers:

- ◆ selection and training of sales staff who are in direct contact with domestic customers;
- ◆ an independent audit of sales activity: a customer signing a contract following a sales visit or telephone call should be contacted within 14 days by someone else from the company to ensure that the customer is content with the sales approach and is aware of having signed a contract;
- ◆ where a sale takes place two months or more before a customer is due to change supplier, a requirement that the company should maintain contact with the customer and inform them of progress;

- ◆ a ban on using agents who seek payment in advance for arranging a supply of gas; and
- ◆ schemes for paying compensation to customers who are victims of misleading sales.

c) *Social Obligations*

Gas suppliers serving domestic customers are required to adhere to a number of social obligations (full list given in Appendix 2). These include the requirements:

- ◆ to provide energy efficiency advice on request;
- ◆ to provide special controls, adapters and advice on gas use, appliances and fittings etc. to the elderly, disabled and chronically sick on request and facilities for blind and deaf people and to keep a register of such customers (the Gas Care register); and
- ◆ to provide credit terms for the supply of gas to those customers who are in debt through misfortune or inability to cope. This includes offering the facility to discharge their debt by instalments or a pre-payment meter and general advice as to how future bills may be reduced through the more efficient use of gas.

d) *Non-Discrimination*

Under Standard Condition 13 of the Gas Suppliers' Licence, a dominant gas supplier is prohibited from showing undue preference or exercising undue discrimination against any person or class of persons. Condition 13 is less stringent after competition is established than before. When competition has been established, the dominant supplier is able to price in a way that is reasonably necessary to meet established competition, but not in a way that is predatory.

Condition 13 deals only with undue discrimination and undue preference in gas supply terms including the charges set. It does not address all aspects of anti-competitive behaviour. Specifically, it complements and does not substitute for the normal operation of UK competition law in the gas industry where, as noted above, the DGGS has concurrent powers with the Director General of Fair Trading under the Fair Trading Act 1973 and the Competition Act 1980.

2.3.4 Standard Condition 13 and Predatory Pricing

In Ofgas' final proposals for BGT's supply price control,² in response to concerns expressed by BGT, we set out our views on how we would judge whether BGT was pricing in a predatory way for an area or class of customers where competition has been established.

Ofgas said that generally predatory pricing is suspected if prices do not cover the costs which can be directly attributed to the group of customers to which they relate. Ofgas set a preliminary threshold level for consideration of predatory behaviour. Prices set such that they do not cover all BGT's attributable costs, including gas, would *prima facie* be considered to be predatory and warrant regulatory investigation. It was considered that an appropriate threshold for the gas cost component would be longer term spot price estimates, including an allowance for swing.

However, Ofgas said that predation may also occur where prices are set at the same level as, or above, attributable costs. Whether prices are predatory or not is best judged against the result that they can be expected to achieve; this will necessarily depend on the circumstances at the time.

² '1997 Price Control Review, Supply at or below 2,500 therms a year – British Gas Trading: The Director General's final proposals', Ofgas, November 1996.

3. BGT's Tariffs

This chapter sets out developments relating to BGT's tariffs, and its tariff caps. After providing background on BGT's current price control (section 3.1), we describe the following developments:-

- ◆ BGT's proposed ValuePlus tariff (section 3.2);
- ◆ BGT's 'rebalancing request' (section 3.3); and
- ◆ the GCC reference on undue discrimination and predatory pricing (section 3.4).

Ofgas' response to each of these developments is set out as follows:-

- ◆ conclusions on rebalancing (section 3.5);
- ◆ decision on the GCC reference on undue discrimination (section 3.6); and
- ◆ discussion and decision on the GCC reference on predatory pricing (including decision on ValuePlus) (section 3.7).

A summary of Ofgas' conclusions is provided in section 3.8.

3.1 BGT's Price-Controlled Tariffs

BGT's prices to domestic customers are subject to a price control contained in Special Condition 3 of BGT's Gas Suppliers' Licence. It takes the form of an RPI-X price control for supply and meter reading costs (i.e. the cap rises by the retail price index minus a specified percentage X each year – for the duration of the existing price control X has been set at 4), with a pass-through of transportation, storage, meter provision and gas costs, subject to an economic purchasing condition where appropriate.

The price control set caps on each of BGT's Great Britain (GB) wide tariffs: DirectPay, OptionPay, Standard Credit and PrePayment. BGT was required to continue to offer these four

regulated tariffs to all its customers in Great Britain for the duration of the price control (i.e. from 1 April 1997 to 31 March 2000).

The 'tariff cap' form of price control was put in place to ensure all BGT's customers are protected from unduly high prices in the new competitive environment. If Ofgas had maintained the previous form of price control based on average or total revenue, BGT could have compensated for price cuts to one class of customer by increasing prices to other classes of customer. For example, price reductions to direct debit customers could have been offset by price increases to pre-payment customers. However, the introduction of individual price caps on BGT's GB-wide tariffs has prevented this option. These GB-wide tariffs cannot be increased to offset reduced revenue from selective price cuts introduced by BGT in particular areas of the country. Nor can any of GB-wide tariffs be rebalanced to reduce some tariffs and raise others without a thorough investigation by Ofgas and a change in BGT's licence condition which is subject to public consultation.

The decision that the price control should treat gas costs as a pass-through element was similarly considered against the background of the opening of the domestic market to competition. The introduction of competition gave BGT a strong incentive to push down its wholesale gas costs, including re-negotiating existing gas contracts with producers. Therefore Ofgas decided for the present price control to treat gas costs as a pass-through subject to economic purchasing so that all of BGT's regulated customers could benefit from BGT's commercial incentive to reduce the cost of its wholesale gas portfolio.

3.2 ValuePlus

BGT responded to the phased introduction of domestic competition by introducing a new tariff called ValuePlus. It introduced ValuePlus on 4 March 1997 for monthly direct debit customers in the South West of England (the Phase 1 competition area). For an average customer on BGT's GB-wide regulated direct debit tariff (DirectPay), with a consumption of 735 therms a year (the national Direct Pay average at that time), ValuePlus represented a saving of around 5½%. BGT's DirectPay tariff already offered a 6½% reduction against its Standard Credit tariff.

Following representations about this new selective tariff Ofgas issued a consultation document³ and subsequently a decision document⁴ in which it was concluded that BGT could continue to

³ 'British Gas Trading's Pricing to Direct Debit Customers in the South West of England - A Consultation Document', Ofgas, March 1997.

market ValuePlus to direct debit customers in the Phase 1 area, although Ofgas would keep the matter under review.

On 2 September 1997, BGT extended its ValuePlus tariff to customers in both stages of the second phase of competition (covering areas in the South West and South East of England). ValuePlus was made available to customers in the Phase 2 area on identical terms to those available to customers in the South West.

On 16 September 1997, Ofgas issued a consultation document⁵ on BGT's extension of ValuePlus to the additional areas. Ofgas' preliminary view, set out in the consultation document, was that on the basis of the information provided by BGT, it should be allowed to market 'ValuePlus' to direct debit customers in the Phase 2 area. However, Ofgas would continue to keep the matter under review in the light of the development of competition.

3.3 BGT's Rebalancing Request and Proposed New Tariffs

On 28 July 1997, BGT applied to Ofgas to have its regulated tariff caps rebalanced⁶, taking into account new evidence presented by BGT regarding the costs of supplying each group of customers.

On 11 September 1997, subsequent to BGT's request to rebalance its tariff caps, BGT announced that it intended to introduce a new tariff structure on 12 January 1998. Price reductions of 9% and 8% respectively were announced for DirectPay and OptionPay customers. A price reduction of 1% was announced for Standard Credit customers. No proposal was made regarding pre-payment meter customers, pending the outcome of an Ofgas review of the pre-payment system.

To ensure that existing ValuePlus customers would be no worse off than other customers paying by direct debit under the new prices from 12 January 1998, BGT submitted a formal notice dated 24 December 1997 to revise the tariff rates for ValuePlus in competition Phases 1 and 2 in line with its new GB-wide DirectPay tariff. Hence from 12 January 1998, ValuePlus did not offer a price advantage over BGT's price-controlled GB-wide direct debit tariff.

⁴ 'ValuePlus: British Gas Trading's pricing to Direct Debit Customers in the South West of England - A Decision Document', Ofgas, May 1997.

⁵ 'Extension of British Gas Trading's 'ValuePlus' Tariff to the area covered by the second phase of competition – A Consultation Document', Ofgas, September 1997.

⁶ Under its price control, BGT retained the right at any time to request a change in the relative levels of its

3.4 The GCC Reference on Undue Discrimination and Predatory Pricing

The GCC was concerned that BGT had announced significant tariff reductions for DirectPay and OptionPay customers, with smaller reductions for Standard Credit customers and no reductions at all for PrePayment customers. On 16 September 1997 the GCC made a formal reference to the DGGs under sections 14(3), 31(2) and 28 of the Gas Act 1986, asking her to consider the following issues:

- a) whether BGT's failure to introduce any reduction for pre-payment meter customers constituted undue discrimination against this class of customer;
- b) whether BGT's failure to direct the cost savings coming out of Transco price changes to all customers constituted undue discrimination against pre-payment meter users or customers using special payment arrangements; and
- c) whether the proposed price reductions constituted predatory pricing.

On 16 September 1997, in conjunction with our consultation document on ValuePlus in the Phase 2 competition area, Ofgas invited comments from interested parties on BGT's proposed new tariffs.

3.5 Ofgas' Conclusions on BGT's Rebalancing Request

BGT formally withdrew its application for a rebalancing of its tariff caps on 19 May 1998.

If BGT had not withdrawn its application, Ofgas would have formally rejected the application on the basis of our examination of costs. We would have proposed instead a more limited set of adjustments to the caps. In the light of the information provided by BGT in support of its rebalancing request, Ofgas believed that the existing tariff caps were no longer consistent with the requirement on BGT, under Standard Condition 13 of its Gas Suppliers' Licence, not to show undue preference or exercise undue discrimination against any person or class of person.

Ofgas has, therefore, proposed a modification to BGT's licence to replace the existing tariff caps.⁷ Under this proposal the caps for all tariffs would be revised, and the Standard Credit and

four tariff caps (i.e. to have its regulated tariff caps rebalanced).

⁷ This proposal is set out in appendix 7 in the Ofgas decision document 'Review of British Gas Trading's

PrePayment tariffs would be treated as a single tariff, except that for PrePayment customers below 156 therms a year, a reduced level of charges would continue to apply. Ofgas' view is that the rebalanced tariff caps should be incorporated into BGT's licence with effect from 1 April 1998. This proposal has now undergone a 28 day period of statutory public consultation. Ofgas' conclusions are due to be published shortly.

3.6 Ofgas' Decision on the GCC Reference on Undue Discrimination

Addressing the reference made to us by the GCC on the subject of undue discrimination, Ofgas also considered the issue of whether or not there was undue discrimination resulting from BGT's existing tariffs. Ofgas did this by comparing the tariffs with costs. We concluded that there were sizeable differences between BGT's present tariffs and Ofgas' estimate of appropriate cost reflective tariffs. The analysis suggested that BGT's OptionPay, Standard Credit and PrePayment tariffs should all be reduced relative to DirectPay. However, the most sizeable difference related to the PrePayment tariff and BGT agreed to introduce a reduction to its PrePayment tariff from 1 October 1998 to bring it in line with the Standard Credit tariff. This amounts to a reduction in the annual bill of a PrePayment customer taking 650 therms of gas a year of around £9 or a little under 3%. BGT has also indicated that it will address the remaining differentials and Ofgas will be seeking to ensure that it does so no later than early 1999.

3.7 Ofgas' Decision on the GCC Reference on Predatory Pricing

a) GCC reference

The reference by the GCC as to whether BGT's proposed tariffs were predatory concerned all the tariffs for which BGT had announced price reductions at the time the reference was made in September 1997, i.e. DirectPay, OptionPay and Standard Credit. However, for completeness, Ofgas has also considered this issue in relation to the PrePayment tariff. (A summary of the responses to the Ofgas consultation on BGT's new tariffs was included in our decision document on BGT's rebalancing request.)⁸

Domestic Supply Tariffs, A Decision Document', Ofgas, July 1998.

⁸ 'Review of British Gas Trading's Domestic Supply Tariffs, A Decision Document', Ofgas, July 1998.

b) *Discussion*

A key issue to consider in deciding whether or not BGT's present tariffs are predatory is the relationship of its prices to its costs. BGT's costs have been discussed in Ofgas' review of BGT's proposal to rebalance its tariffs. That review found that for an average customer none of these tariffs were below the relevant attributable costs, including gas costs at the pass-through level. The margin over attributable costs was found to be about £7 a year for DirectPay customers and substantially more for the other tariffs. We also found that for an average customer the tariffs were set above the level required to recoup a fair contribution to joint costs (i.e. those costs which cannot be attributed to a particular tariff or tariffs) for any particular tariff offering. For very low consumption customers (less than around 200 therms a year), where standing charges are more important, DirectPay, OptionPay and PrePayment charges are below the relevant attributable costs, although the numbers of customers affected are likely to be small.

However, the issue of whether these tariffs are predatory is wider than this. Predation may also occur where prices are set at the same level as, or above, attributable costs. Whether prices are predatory or not is best judged against the result that they are designed to achieve. In particular, BGT's tariffs should be judged by the effect they are likely to have on the development of competition. Tables 10 to 12 (see pages 44-46) show how the relationship between BGT's and competitors' tariffs has changed over the period during which ValuePlus was introduced, and then effectively replaced by the new, lower DirectPay tariff.

BGT's present tariffs embody a gas price of around 20p per therm, reflecting the agreement made at the time of the review of the supply price control that gas costs should be passed through to customers, provided that they were economically incurred. This gas price is widely recognised to be above the replacement cost of gas and the plausible cost of gas to competitors. It seems likely that the competitors' experience in relation to BGT's pricing still lies within the band of expectations which they might have had when they decided to enter. The effect of the price changes in the direct debit sub-market, regarding DirectPay as the replacement for ValuePlus, is to leave the competitors in much the same position as they were in September 1997, with BGT's tariffs higher than those of its competitors. As would be expected as experience has grown since May 1997, the range of competitors' direct debit tariffs has narrowed over time, as described in section 4.6.4. The highest competitors' tariff in May 1997 (in the Phase 1 area) was about equal to ValuePlus, and the lowest 15% lower. In August 1998 the range was from 2% to 12% lower.

With hindsight, ValuePlus can be regarded as a measure designed to stem the tide until rebalancing of the tariff caps could occur. Its direct impact in persuading customers to return to BGT was limited.

Evidence from the research study carried out by MORI in December 1997⁹ supports the view that the impact of ValuePlus was limited. The survey found that the majority of non-switchers (73%) in the Phase 2b area said that ValuePlus would make no difference to their decision to switch from BGT to another supplier. Similarly, when non-switchers were asked why they had not switched supplier, only 2% gave ValuePlus as a reason after prompting. Of the few that had switched back to BGT at that time, none mentioned ValuePlus as a reason even after prompting.

Although a reduction in the rate of loss of market share did occur at around the time when ValuePlus was introduced in the Phase 2 area as described in section 4.5.1, there was no similar drop when ValuePlus was introduced in the Phase 1 area. The drop in the Phase 2 area was more likely to have been the result of BGT's '15%' advertising campaign, relating to the tariff reductions which it planned to introduce on 12 January 1998, or to marketing effort by competitors being diverted to the Phase 3 areas. The issue of BGT's marketing and its effect on the development of competition is discussed in sections 5.3 to 5.6 below.

For Standard Credit customers, there is in general a bigger discount against BGT's tariffs than those seen by direct debit customers and this position has been maintained during 1998.

For OptionPay, comparisons with competitors' prices are more difficult, because most competitors do not offer a tariff corresponding directly to BGT's (covering customers paying promptly within 10 days, by monthly standing order or by quarterly variable direct debit). However, at average consumption levels, analysis of August tariffs shows that, with the exception of one small supplier, BGT's OptionPay tariff sits above the range of competitors' tariffs for customers paying promptly or by quarterly variable direct debit (see Tables 10 and 11). Only one of BGT's competitors offers a discount for prompt payment, so in most cases competitors' tariffs for prompt payment are the same as their standard credit tariffs. At lower consumption levels (around 300 therms), BGT's prices are slightly below those of 5 of its competitors, for customers paying promptly by quarterly credit. For quarterly variable direct debit customers at the same consumption level BGT's tariff is not below any of its competitors.

⁹ 'Gas Competition Review: December 1997 A research study conducted by MORI for Ofgas', March 1998.

The limitations of BGT's billing system mean that the OptionPay discount has to be given as a lump sum, which results in a higher percentage discount for lower consumption customers. The lower differentials between BGT's tariffs and those of its competitors for this group, particularly at low consumption levels, are therefore probably best seen as a result of the lack of targeting of this group by competitors, and of the compromises required in order to operate the OptionPay scheme on BGT's billing system.

In considering the effect of the changes brought in earlier this year on pre-payment tariffs it is important to note that as discussed in section 4.5.3, as a proportion of those pre-payment customers who are not paying off debt, the numbers who have actually switched suppliers are very high. This is in spite of the fact that, in general, the price reductions offered by competitors to pre-payment customers are less than the ones offered to other customers. The differentials between pre-payment and other tariffs are larger for competitors than for BGT.

c) Ofgas' Position on GCC's Predatory Pricing Reference

Ofgas has considered the reference made to us by the GCC, asking us to consider whether the price reductions introduced by BGT on 12 January 1998 were predatory. The prices charged have been set above attributable costs and above the level required to recoup a fair contribution to joint costs. The effect of BGT's pricing on the development of competition has also been considered. We have concluded that the tariffs resulting from these reductions are not predatory in themselves.

ValuePlus was superseded when BGT introduced new lower prices for its DirectPay tariff on 12 January 1998, and the price for ValuePlus was reduced to the same level as DirectPay. This conclusion therefore also applies to the ValuePlus tariff.

However, pricing is not the only issue in determining whether or not BGT is acting anti-competitively. The way that BGT markets its tariffs and its other products is important to the development of competition. The issues are considered in detail in chapter 5 below, alongside other matters, including BGT's dual fuel offer.

3.8 Summary

A 'tariff cap' price control effective from 1 April 1997 – 31 March 2000 regulates all of BGT's GB-wide tariffs. It prevents BGT from compensating shareholders for price cuts to one class of

customer by increasing prices to others. It thus provides price protection to all classes of BGT's customers.

Ofgas has recently reviewed BGT's GB-wide regulated tariffs against revised costs to determine whether the tariff caps should be rebalanced to prevent undue discrimination. This review resulted in a reduction in BGT's PrePayment tariff to bring it in line with BGT's Standard Credit tariff. Ofgas' review also suggested that BGT should further revise its tariffs to reduce its OptionPay and Standard/PrePayment tariffs relative to its DirectPay tariff. BGT has indicated that it will address the remaining tariff differentials to bring them into line with costs. Ofgas will be seeking to ensure that it does so no later than early 1999.

Against this background, Ofgas has considered whether the price reductions introduced by BGT on 12 January 1998 were predatory. The prices charged have been set above attributable costs and above the level required to recoup a fair contribution to joint costs. The effect of BGT's pricing in the development of competition has also been considered. We have concluded that BGT's DirectPay, OptionPay, Standard Credit and PrePayment tariffs are not predatory. This decision constitutes the final part of the reference made by the GCC, on 16 September 1997 concerning these price reductions.

ValuePlus was superseded when BGT introduced new lower prices for its DirectPay tariff on 12 January 1998, and the price for ValuePlus was reduced to the same level as DirectPay. This conclusion therefore also applies to the ValuePlus tariff.

4. Development of Domestic Competition

This chapter provides information on the progress of competition in the domestic gas supply market and in various segments of that market by the end of 1997 and also gives information on more recent developments.

Ofgas has used four sources of data in its analysis: results of market research conducted by MORI; domestic gas suppliers' statements of compliance with social obligations; responses from shippers and suppliers to Ofgas' quantitative survey;¹⁰ and data supplied by Transco on supply points held by shippers and on volumes shipped.¹¹

Using these sources of data, Ofgas has examined the following aspects of domestic competition:

- ◆ customer awareness and satisfaction (section 4.1);
- ◆ suppliers' compliance with social obligations (section 4.2);
- ◆ growth in the number of domestic gas suppliers (section 4.3);
- ◆ changes in market shares and switching behaviour (section 4.4); and
- ◆ payment methods and prices offered (section 4.5), including:
 - ◆ a comparison of BGT's and its competitors' tariff levels;
 - ◆ a comparison of BGT's and its competitors' tariff structures; and

¹⁰ '1997 Competitive Market Review: A Consultation Document' Ofgas, December 1997. The quantitative questionnaire to shippers and suppliers asked for information about the numbers of customers supplied, by payment type, with volumes supplied split into 5 volume bands. We also asked for annual bills by payment type at 7 different consumption levels. In addition, Ofgas asked suppliers to provide weekly data on the number of customers supplied and those who had signed contracts but not yet begun supply.

¹¹ Transco provided annual quantity (AQ) reports detailing annual supply point volumes in total for each shipper. AQ represents the expected annual consumption over the next 12 months for a meter point, at seasonal normal temperature. Transco provided weekly reports detailing domestic supply points held by each shipper and number of transfers by shipper.

- ◆ an analysis of changes in the level of competitors' tariffs relative to BGT's tariffs since competition was first introduced.

A summary of the development of domestic competition is provided in section 4.6.

4.1 Customer Awareness and Satisfaction

In November/December 1997, Ofgas asked MORI to carry out a survey of customer awareness, understanding and satisfaction in the domestic market. The survey included a follow-up to an earlier survey (September/October 1996) in Phase 1, a new survey in Phase 2b (Kent and East and West Sussex) and a national survey which was more limited in scope. The main conclusions of these surveys were:

- ◆ the apparent switch by gas suppliers to targeting the lower income groups had generated a much greater level of equity in the domestic gas market. This group felt much better informed of the changes than it did in October 1996, resulting in a higher level of 'lower income' switchers and a more representative profile of switchers overall;
- ◆ the greater reliance on the gas suppliers as information providers in Phase 2b, particularly through doorstep selling, seemed to have played a significant role in the high rate of switching in the region as a whole. The majority of customers found this method of selling satisfactory and informative. The diminishing role of television and newspapers was also likely to have reduced the impact of 'negative' publicity surrounding competition;
- ◆ there was some evidence that the switching process had been made smoother over the 12 months ending November 1997, with more switchers finding this process easy in Phase 2b than in Phase 1. This suggested that the industry had learnt from the difficulties experienced by some customers in the early stages of competition;
- ◆ reductions in British Gas' tariffs were likely to have an effect on the numbers switching, especially among those who had already considered switching. Price was the main reason for switching;

- ◆ the new suppliers needed to work constantly at improving their service in order to retain their customer base, given that switchers were clearly more discerning than non-switchers about the level of service they expect from their suppliers; and
- ◆ the industry needed to improve the awareness of some of the issues surrounding gas competition and changing supplier, namely – that Transco is responsible for dealing with gas leaks, that customers can keep their British Gas service contract if they switch to another supplier, that those in debt cannot switch if their current supplier objects, that it is not obligatory to pay by direct debit and that other gas suppliers operate a gas care scheme.

Other relevant findings of these surveys included:

- ◆ over 90% of customers were aware of domestic gas competition;
- ◆ most switchers found the process easy and the majority of those who had not switched thought that switching would be easy;
- ◆ the main reasons given for not switching were that people were ‘happy with British Gas’, had ‘always been with British Gas and see no reason to change’ or were ‘waiting to see what happens’; and
- ◆ there was a high level of doorstep selling activity in the lower income groups and customers using a budget plan and pre-payment meter were most likely to have been visited by a gas supplier knocking on their door.

Subsequent to the 1997 survey, Ofgas and the National Audit Office commissioned MORI to undertake a further survey into gas competition. MORI interviewed a representative sample of 2,511 gas bill payers nation-wide during July and August 1998. Ofgas expects the full study to be published shortly. The preliminary findings show:

- ◆ there is nothing to suggest that lower income groups are being disadvantaged, with the profile of switchers by social class similar to the profile of the population as a whole. One of the most striking findings, when considering the profile of switchers, is a slightly higher proportion of DE customers (37%) than the proportion of the DEs¹² in the whole population (35%). This contrasts with a smaller proportion of ABs (14%) amongst switchers than in the population as a whole (19%) and shows that the lower income groups now have a slightly higher tendency to switch than the higher income groups. Those who pay bills through a budget plan or a pre-payment meter are as likely to have switched suppliers as other customers, suggesting that this group is not being excluded from gas competition;
- ◆ doorstep selling seems to be an effective method of communication with gas customers, particularly amongst the lower income groups. 55% of households had received a doorstep visit. Although most find this method informative and satisfactory, there is evidence of some problems, with one in five dissatisfied with the contact they have had, mainly due to the representatives being 'too pushy';
- ◆ price remains the main reason for customers switching supplier;
- ◆ the vast majority of customers have not, or do not, anticipate any difficulties in changing supplier;
- ◆ the net effect of competition is an improvement in service for both switchers and non-switchers. Of those that noticed the difference, twice as many rate their current supplier as better, than worse. Similarly, around three-quarters of British Gas customers rated its quality of service as unchanged over the past two years. Of the remainder, more say that the service is better than say it is worse;
- ◆ more than 90% of those interviewed know there is a free phone number to call in the event of a gas leak;

¹² 'DEs' refer to customers in socio-economic groups D and E. Similarly, 'A', 'B', 'C1' and 'C2' refer respectively to socio-economic groups A, B, C1 and C2.

- ◆ although the majority feel well informed about the changes, there continues to be a minority which is confused over certain issues - whether all suppliers operate a Gas Care scheme, whether customers can keep their service contract with BGT if they switch, whether or not someone in debt to one supplier can change supplier and that British Gas has been split into two separate companies. This confusion is highest amongst C2DEs;
- ◆ awareness that competition has been introduced into the gas market is now almost universal. 95% of those interviewed were aware that competition has been introduced into the domestic gas market, an improvement over the 90% of the 1997 survey;
- ◆ the main reasons why people have not so far switched are that they are happy with BGT or are waiting to see what happens. Some, though, express the need to know more about the suppliers;
- ◆ a minority finds it difficult to compare the prices of the different gas suppliers, and it is also evident that there is some confusion about differing tariffs by payment method; and
- ◆ there is little evidence that people are being pressurised into paying by direct debit when they switch, with only a tiny minority believing it is compulsory to pay by direct debit.

4.2 Standards of Service in Respect of Social Obligations

4.2.1 Suppliers' Statements of Compliance

All domestic gas supply companies are required to publish an annual statement of compliance with standard conditions 15-20 of their licences (as summarised in appendix 2). At present, the statements are designed to provide the data set out in appendix 3.

Suppliers are required to publish their annual statements of compliance as soon as practicable after 31 December each calendar year. Copies of these annual reports are sent to the DGGs and the GCC at the same time. In addition, suppliers agreed to provide Ofgas with quarterly updates. Those companies which entered the market in 1996 and 1997 are now making regular quarterly statements. Companies who commenced trading during 1998 are now making either their first or second statements.¹³

¹³ Full statements are available from the companies themselves.

4.2.2 Ofgas' Preliminary Assessment of Compliance

Using the compliance statements, Ofgas has made a preliminary assessment of compliance with social obligations.

Data provided by suppliers on Condition 16 (Advice on the efficient use of gas) indicate that non-BGT suppliers have provided advice to more customers (5,589 customers) than BGT (4,141 customers) over the same period.

On Condition 17 (Services for pensioners or disabled or chronically sick persons), as noted above, the data show that BGT has a higher percentage of customers on the Gas Care list (6.8%) than its competitors (4.6%). It is unclear at this stage whether this is because this group of customers is less likely to switch or because other suppliers are not as active in putting customers onto the list as BGT.

That said, competitors appear to be providing services to customers on the Gas Care register at a proportionally higher rate than BGT. Thus, the data indicates that while there are more customers on BGT's gas care register, those on competitors' registers appear to receive a better service. However, from this data alone, it is impossible to determine whether either BGT or its competitors are fully compliant. (Similar conclusions must be drawn from data provided on Condition 18 (Facilities for blind and deaf persons).)

Data on Condition 19 (Steps to be taken where charges for gas are unpaid) and Condition 20 (Pensioners not to have gas cut off in winter) tell a mixed story and suggest that suppliers interpreted the data requirements in their quarterly returns in different ways. For most non-BGT suppliers, insufficient time has passed for customers to build up debts to the point where suppliers will take action to recover the monies owed.

In summary, data for the quarter ending June 1998 provide some evidence that suppliers are taking action to meet their social obligations. However, there are a number of analytical difficulties arising from the quality of the data provided.

Suppliers have interpreted the reporting requirements in different ways. For example, in recording the number of pre-payment installations, some suppliers have counted all pre-payment customers supplied whilst others have counted only newly acquired customers using

pre-payment meters (or other variations). Equivalent definitional problems arise in respect of reporting how many customers pay by instalments.

At this stage of the development of competition, there is a limited time series of data against which to compare suppliers' performance. In particular, there is limited data on compliance with the moratorium on disconnections of pensioners in winter.

The information provided by suppliers, even if accurately and consistently reported, may not always constitute the most appropriate data for assessing compliance with licence requirements. For example, as noted in section 4.2.2, absolute figures showing the number of customers on the gas care register in themselves do not show whether a company has complied with its licence.

Ofgas proposes to send out guidance notes on how to complete the current compliance statements. In addition, Ofgas will be writing to licensees and other interested parties to revise the format of the information requests.

4.3 *The New Suppliers*

The number of competitors to BGT has increased since the beginning of the roll-out of competition. In May 1997 there were 12 suppliers (including BGT) in the Phase 1 competition area. By the end of 1997 there were 18 suppliers in phases 1 and 2. By the end of August 1998 there were 24 suppliers operating in the domestic market.¹⁴ These are listed in Appendix 4. Of these 24 suppliers, 18 operate on a Great Britain wide basis. In addition there have been a number of 'affinity deals' with other organisations, e.g. trade unions.

4.4 *Changes in Market Shares and Switching Behaviour*

4.4.1 *Overview of The Domestic Market*

Table 1 shows BGT's share of the domestic market as a whole and the competition phases within it as at the end of November 1997 and as at the end of August 1998. It shows that BGT had lost around 3% of the domestic market as a whole by 30 November 1997 and 15% by the end of August 1998.

¹⁴ London Total Energy transferred all its supply points to Northern Electric in the Phase 1 and 2 competition areas in May 1998. SWEB Gas has been taken over by Amerada Hess but still trades under its original name and licence.

Table 1 - Changes in BGT's Share of the Domestic Sector to the end of August 1998

| Competition Phase | Total Number of Supply Points ¹ | | Supply Points Registered to BGT % | |
|--|--|----------------|-----------------------------------|----------------|
| | 30 November 1997 ² | 31 August 1998 | 30 November 1997 | 31 August 1998 |
| Competition Phase 1 (opened 29/04/96) | 577,256 | 584,093 | 77 | 76 |
| Competition Phase 2 (opened 10/02/97) | 1,661,900 | 1,665,179 | 76 | 74 |
| Competition Phase 3 | | | | |
| Tranche 1 (opened 1/11/97) | 2,488,361 | 2,534,957 | n/a ³ | 79 |
| Tranche 2 (opened 27/02/98) | - | 2,738,428 | 100 | 84 |
| Tranche 3 (opened 27/03/98) | - | 3,058,446 | 100 | 85 |
| Tranche 4 (opened 24/04/98) | - | 3,211,341 | 100 | 85 |
| Tranche 5 (opened 22/05/98) | - | 3,229,602 | 100 | 89 |
| Tranche 6 (opened 23/05/98) | - | 3,198,043 | 100 | 92 |
| TOTAL / AVERAGE | | 20,220,089 | 97 | 85 |

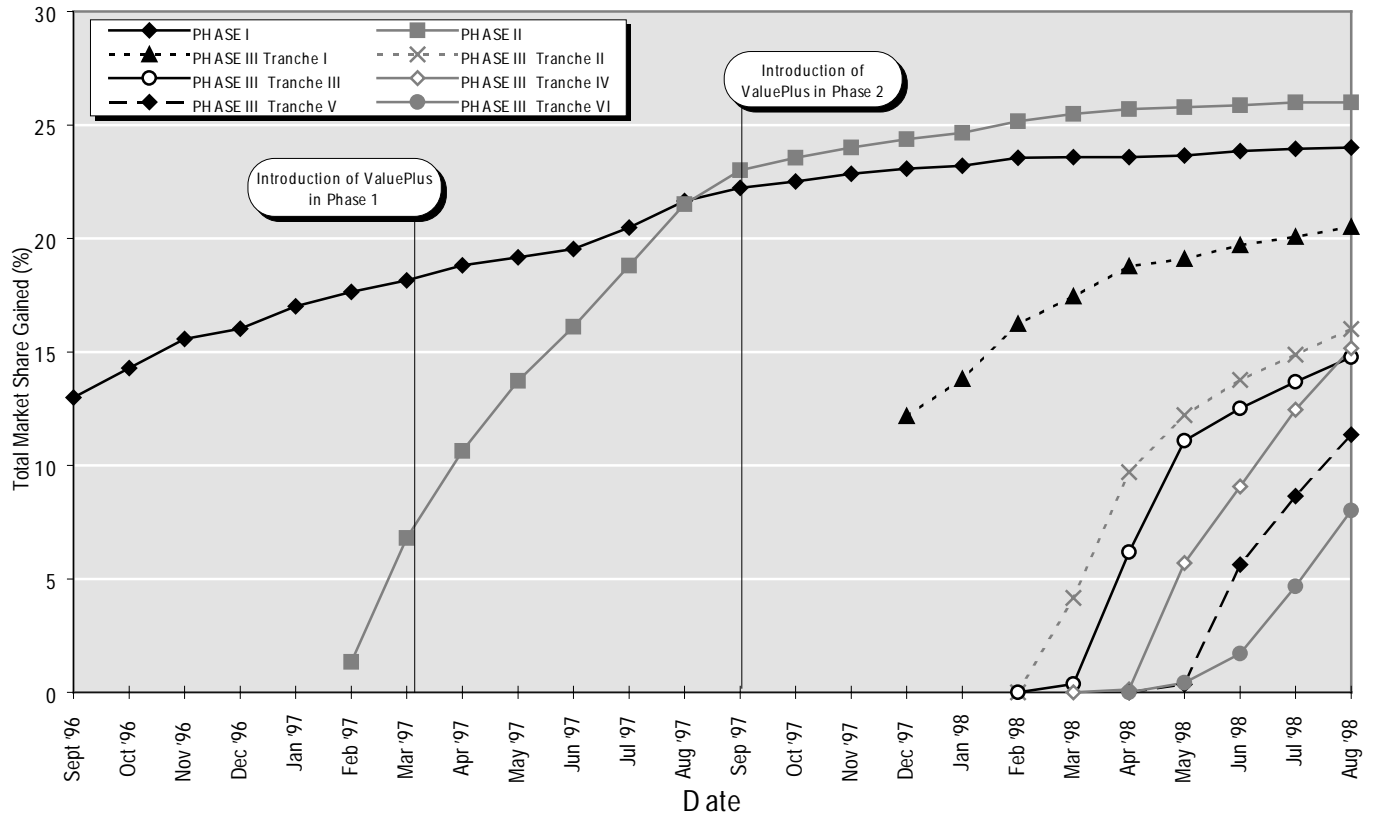
Notes:

1. Figures do not include customers connected to Independent Public Gas Transporters' networks. The number of domestic customers connected to these networks is estimated at less than 25,000. Figure 2 also illustrates BGT's market share loss up to the end of August 1998. The figure shows BGT's market share loss (measured by the percentage of supply points not registered to BGT) on a month by month basis. Separate graphs are plotted for each of the 3 phases (with Phase 3 broken down into 6 tranches). Figures also treat over half a million customers who are waiting to be transferred to their chosen supplier as BGT's customers.
2. Transco figures not available for areas not opened to competition on 30 November 1997.
3. Data not available from Transco on Phase 3 Tranche 1 as at 30 November 1997.

Source: Transco.

Table 1 shows that BGT had lost around 3% of the domestic market as a whole by 30 November 1997 and 15% by the end of August 1998.

Figure 2 - Market Share Gain¹ by BGT's Competitors in the Domestic Sector from September 1996 to the end of August 1998



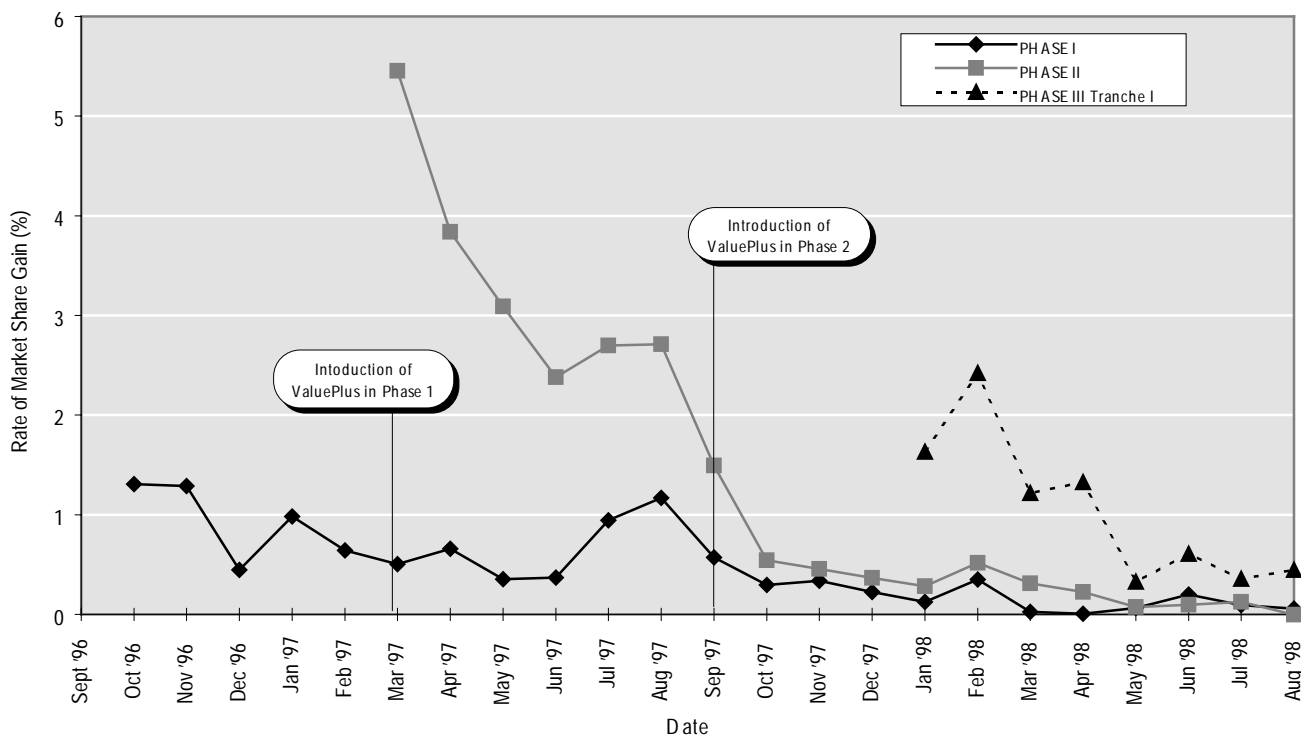
Note:

- Percentage of market share gained has been calculated as total number of supply points registered with other suppliers divided by total number of domestic supply points averaged over the month in question.

Source: Transco (customers connected to Independent Public Gas Transporters' networks not included).

Figure 2 shows that after an initial rapid movement of customers away from BGT there has been a tendency for losses to begin to level out in phases 1 and 2 at around 25%. Phase 3 tranches appear to be following the pattern of Phase 2, in which the initial rate of loss was much quicker than in Phase 1. The changes in the rate of market share gain are seen more clearly in Figure 3.

Figure 3 - Rate of Market Share Gain¹ by BGT's Competitors in the Domestic Sector from September 1996 to August 1998



Note:

1. The increase in market share held by BGT's competitors compared with the average share held in the previous month.

Source: Transco (customers connected to Independent Public Gas Transporters' networks not included).

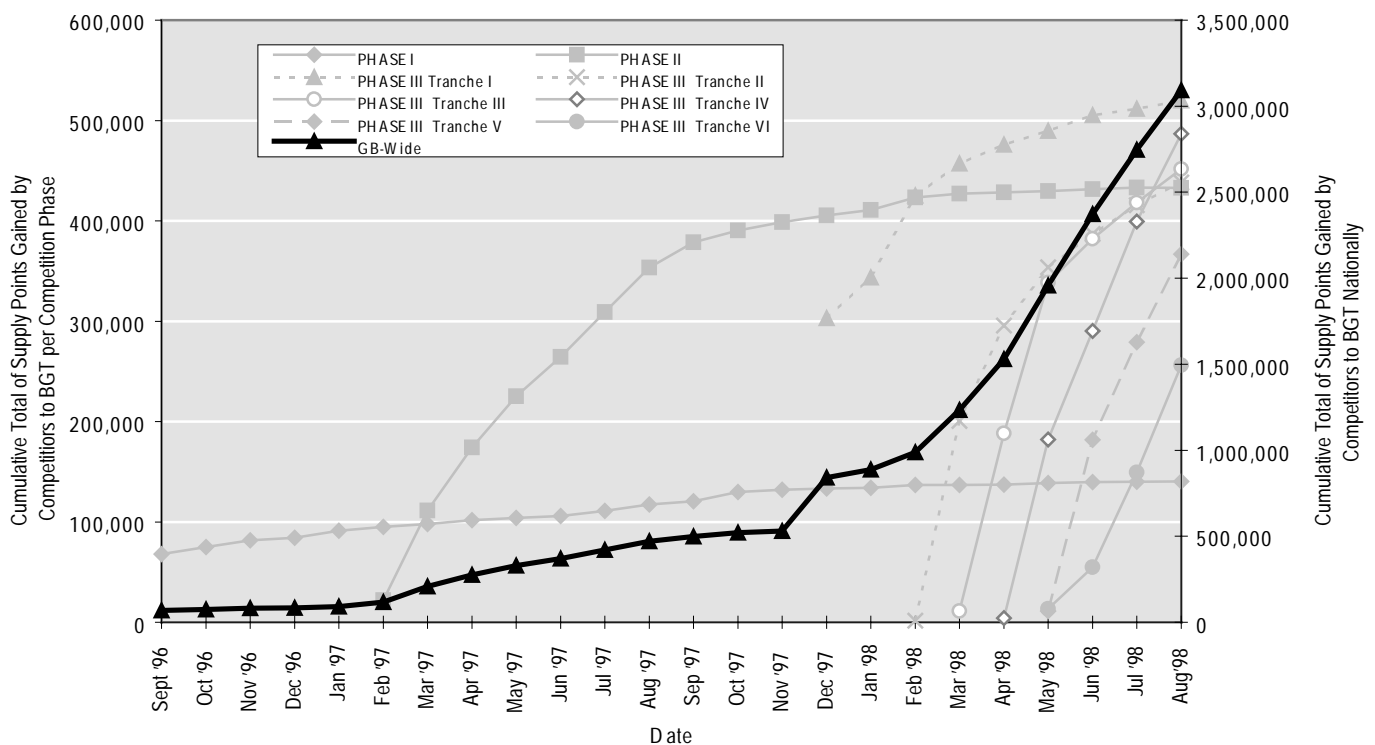
In Phase 2, and to a lesser extent in Phase 1, there was a sharp decline in the rate of market share loss by BGT during September and October 1997 to a new lower level, falling to zero in the Phase 1 area and 0.2% per month in the Phase 2 area by April 1998. Since April 1998 loss rates in both areas have remained below 0.2%.

There could be a number of potential explanations for the drop in transfers in Autumn 1997. First, the beginning of September 1997 was the time when BGT introduced its ValuePlus tariff for customers in the Phase 2 area although an equivalent decline in the rate of loss of market share cannot be seen in the figures for Phase 1 when ValuePlus was introduced in that area in March 1997. Second, as 6 September 1997 BGT announced planned reductions in its GB wide tariffs, to be implemented on 12 January 1998. Third, at around the same time it also began a national advertising campaign based around promoting a '15% saving' relating to the tariffs it planned to introduce in January. Fourth, on 1 November 1997, Phase 3 began to be opened up, which may have diverted competitors' marketing efforts away from Phases 1 and 2 in the

preceding period. The relative importance of these and other factors in reducing the percentage switch rate in each area is discussed in Chapter 5.

The data discussed above show declines in switch rate in percentage terms in each area. However, it is also important to consider the total number of customers switching away from BGT over the whole country. This is illustrated in Figure 4 below.

Figure 4 - Cumulative Total of Market Share Gained¹ by BGT's Competitors in the Domestic Sector Over the Whole Country between September 1996 and August 1998



Note:

1. The total market share gain for each month is calculated as the total number of supply points registered with other suppliers averaged over the month in question.

Source: Transco (customers connected to Independent Public Gas Transporters' networks not included).

Figure 4 shows that although the total number of switches away from BGT in Phase 2 tailed off, there was a comparable increase in the number of switches in Phase 3 Tranche 1. As Phase 3 Tranche 2 was opened the switch rate in Phase 3 Tranche 1 tailed off, but there was a comparable increase in the Phase 3 Tranche 2 switch rate. The total number of customers switching per month over the whole country remained at a similar level throughout. The data on overall numbers of customers switching are consistent with suppliers maintaining a fairly

constant level of marketing effort but targeting different areas of the country as the competition phases open up.

A tailing off in percentage gains by competitors in the areas in which this has occurred could represent stagnation in the market in that area. Alternatively, it could result from a high level of switching both into and out of BGT, and between competing suppliers ('churn').

BGT has indicated that by the end of 1997 around 25,000 customers had returned to it (taken over all competition areas). By April 1998 this figure had risen to around 61,000 over all phases, and by June (the most recent data available) had risen to around 106,000. For June, returners were approximately 6,310 per week compared to 103,699 leaving so returners were 6% of switchers.

BGT says it is unable to split the number of genuine returners from the number of customers returning as a result of an erroneous transfer. However, it says that the majority of erroneous transfers come to light in the first 3-4 months after the opening of a tranche, so it would expect that most of the returners for the period December 1997 to June 1998 would relate to erroneous transfers. This implies that in BGT's view there were few genuine returners during this period.

Direct data on the level of churn between competing suppliers are not available. However, based on data provided by Transco, table 2 shows the month on month changes in BGT and non-BGT suppliers' customer bases in Phases 1 and 2. The changes in the non-BGT suppliers' customer bases are calculated by summing the magnitude of the change for each non-BGT supplier (i.e. ignoring whether the change is positive or negative).

Table 2 – Estimated Minimum Churn Rates in Phases 1 and 2, November 1997 to June 1998

| Month to: | Nov '97 | Dec '97 | Jan '98 | Feb '98 | Mar '98 | Apr '98 | May '98 | June '98 |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|----------|
| BGT change | 6,294 | 2,167 | 9,582 | 3,334 | 9,229 | 3,507 | 1,541 | 3,705 |
| Non-BGT change | 12,830 | 5,787 | 10,706 | 8,466 | 4,663 | 763 | 2,719 | 3,337 |
| Difference or 'churn' | 6,536 | 3,620 | 1,124 | 5,132 | -4,566 | -2,744 | 1,178 | 368 |

Note:

1. This analysis excludes month on month transfers between BGT and other suppliers, and any additional within month transfers.

Source: Transco.

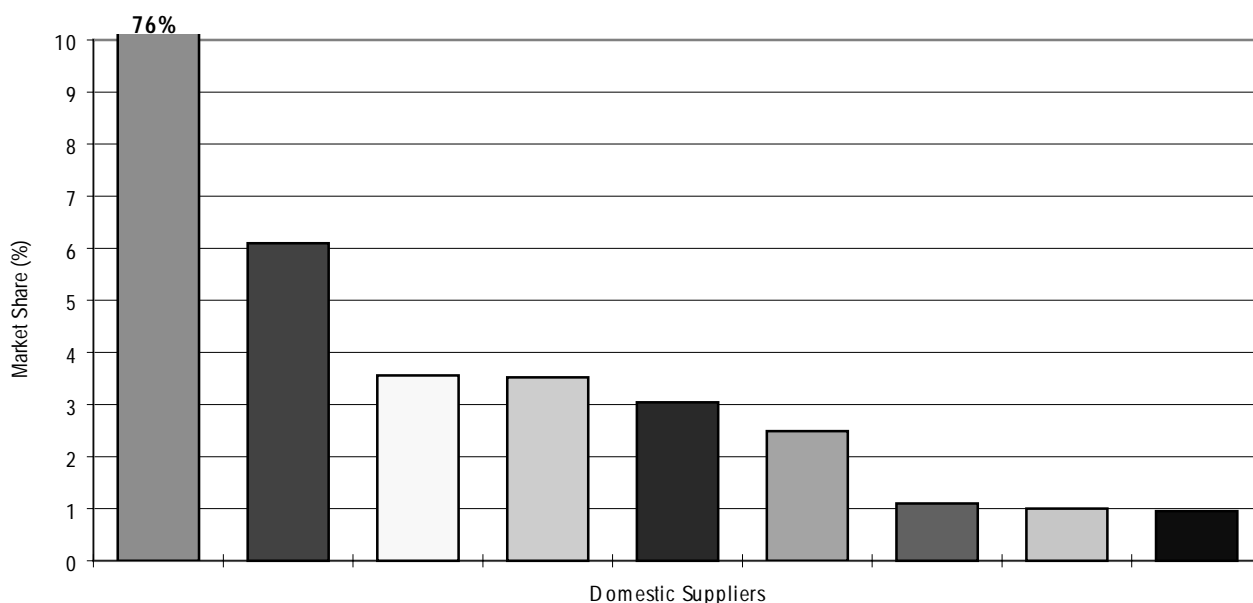
Transco's data suggests that at minimum, there is a significant level of churn between non-BGT suppliers.

The overall picture is that in Phases 1 and 2, there was significant movement between suppliers during the period when percentage gains by competitors were tailing off. The market therefore appears to have continued to be active, and not to be experiencing a period of stagnation.

4.4.2 Market Shares of Competitors

Figure 5 provides a breakdown of the domestic gas supply market in competition Phases 1 and 2, for the 9 companies with the largest market shares as at the end of November 1997. The total market share of companies not included in the graph is 2%.

Figure 5 - Market Shares of Domestic Suppliers in Phases 1 and 2 on 30 November 1997



Note:

1. The total market share of companies not included in the graph is 2%.

Source: Transco and CMR returns. (Figures relate to customers connected to Transco's network).

5 suppliers other than BGT had gained 2% or more market share in Phases 1 and 2 by 30 November 1997, with the largest competitor holding over 6%.

More recent data from Transco on market shares indicate that during the first 5 months of 1998 there has been little change in BGT's market share in Phases 1 and 2.

4.4.3 Market Share Losses by Payment Method

The types of payment method competitors offer and the changes in numbers of customers on BGT's different tariffs are relevant both to the extent to which particular tariff types can be viewed as separate sub-markets, and to the interpretation of competitive behaviour.

Table 3 below presents statistics on payment methods.

Table 3 – BGT’s Share of the Domestic Market for each Payment Method

| Customer Numbers ¹ and Date | Payment Method | | | |
|--|---------------------------|---------------------|------------|-----------|
| | Direct Debit ² | Credit ³ | PrePayment | Total |
| Competition Phase 1 | | | | |
| Number of customers before competition (29/4/96) | 127,227 | 389,664 | 22,647 | 539,538 |
| Total number of customers on 30/11/97 | 164,196 | 392,213 | 20,848 | 577,256 |
| BGT’s share on 30/11/97 ⁴ (%) | 54 | 86 | 84 | 77 |
| BGT’s share on 30/11/97 as % of pre-competition numbers ⁵ | 65 | 81 | 72 | 77 |
| BGT’s share on 31/03/98 as % of pre-competition numbers ^{5,6} | 65 | 81 | 72 | 77 |
| Competition Phase 2 | | | | |
| Number of customers before competition (10/02/97) | 546,561 | 1,012,292 | 76,135 | 1,634,988 |
| Total number of customers on 30/11/97 | 627,083 | 961,347 | 73,470 | 1,661,900 |
| BGT’s share on 30/11/97 (%) | 63 | 83 | 82 | 76 |
| BGT’s share on 30/11/97 as % of pre-competition numbers ⁵ | 72 | 78 | 78 | 76 |
| BGT’s share on 31/03/98 as % of pre-competition numbers ^{5,6} | 71 | 77 | 77 | 75 |
| Competition Phases 1 & 2 | | | | |
| Total number of customers on 30/11/97 | 791,279 | 1,353,559 | 94,318 | 2,239,156 |
| BGT’s share on 30/11/97 (%) | 62 | 84 | 82 | 76 |
| BGT’s share on 30/11/97 as % of pre-competition numbers ⁵ | 70 | 79 | 76 | 76 |
| BGT’s share on 31/03/98 as % of pre-competition numbers ^{5,6} | 69 | 78 | 76 | 75 |

Notes:

1. Customer numbers by payment method submitted by suppliers are scaled to match Transco totals.
 2. Direct Debit includes ValuePlus.
 3. Credit includes Standard Credit and OptionPay customers.
 4. It is not possible to present more recent data in this format because the calculation requires data from all suppliers, which have been supplied only for 30/11/97.
 5. Increased to reflect the overall increase in the number of supply points.
 6. Figures for BGT have been updated to 31/03/98; more up to date information is not yet available.
- Source: BGT and Transco. (Figures relate to customers connected to Transco’s network).

Table 3 shows that in Phases 1 and 2 together, BGT has retained a higher proportion of its original standard credit customers,¹⁵ at 78% (including those on the OptionPay tariff), than it has of its customers paying by other payment methods. Pre-payment customers are the second highest at 76% and lastly direct debit customers at 69%. BGT retained a higher proportion of its standard credit customers in Phase 1 than it did in Phase 2. Losses amongst pre-payment customers in the two phases are similar to the average losses over all customers.

In interpreting these figures, there is a further factor which needs to be considered. Gas Suppliers' Licences allow the transfer of customers with debt, unpaid after 28 days, to be blocked by the supplier to whom the debt is owed. This has a disproportionate effect on pre-payment customers, although it also affects other tariff groups. BGT estimates that 80% of its pre-payment customers are currently paying off debt and fall into the category of customers whose transfer could be blocked because of debt (as do a lower proportion of credit customers), in accordance with BGT's licence.

If BGT were to object to all such customers transferring this would mean only 20% of PrePayment customers would be able to transfer supplier. The statistics for phases 1 and 2 at the end of November 1997, which show transfers already above this level, would suggest that BGT did not object to the transfer of all customers with debt during that period. However, more recent evidence provided to Ofgas by BGT on competition Phase 3 indicates that between the start of February 1998 and the end of August 1998 34.8% of objections raised by BGT related to pre-payment customers with debt. This amounts to approximately 129,000 customers or 6% of the total number of customers who transferred during this period.

The percentage of PrePayment customers able to switch who have in fact done so is therefore likely to be substantially higher than the percentage of all PrePayment customers who have switched. Moreover, the significance of the blocking of transfers due to debt is likely to be wider than the effect on the customers whose transfers are actually blocked, since other customers may be discouraged from even applying to transfer.

Amongst some of the larger competitors there appears to be a bias towards credit customers, in the number of customers gained.¹⁶ In only one case does the competitive challenge appear to

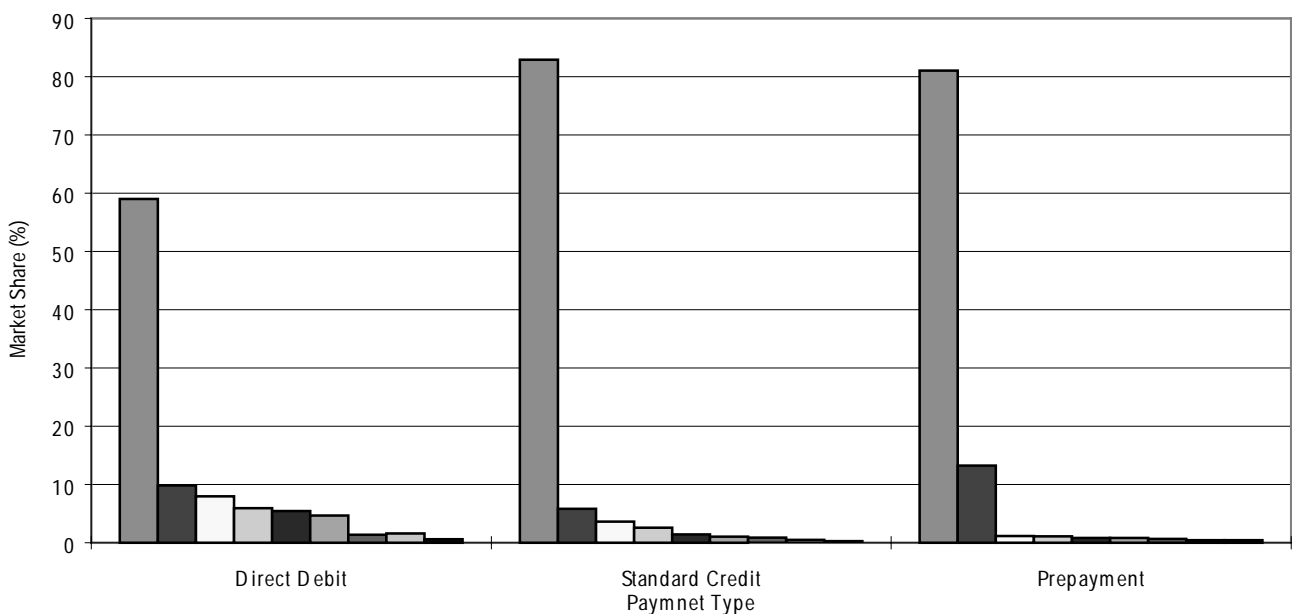
¹⁵ Increased to reflect the overall increase in the number of supply points.

¹⁶ It should nevertheless be noted that competitors' credit customers include some customers transferring from BGT's PrePayment tariff.

have been almost wholly conducted using direct debit offers, although one other supplier also showed a large bias towards direct debit customers. These two suppliers accounted for most of the overall direct debit bias in competitors' market shares as a whole.

Figure 6 below provides a breakdown of the market shares of companies by payment type as at November 1997. (Data by payment type are only available from suppliers and can therefore only be given for the date to which suppliers' CMR returns related.) The total market share of companies not included in the graph is no more than 3% for any payment type.

Figure 6 - Market Shares of Domestic Suppliers by Payment Method as at November 1997



Notes:

1. The total market share of companies not included in the graph is 3% for Direct Debit, 1% for Standard Credit and 1% for Pre-payment.
2. BGT's ValuePlus customers have been included in Direct Debit and OptionPay customers in Standard Credit.

Source: All domestic suppliers as of 30 November 1997, scaled to match Transco totals; more up to date information is not yet available.

Figure 6 shows that for direct debit and credit customers there were a number of competitor companies with similar market shares. For pre-payment customers, although market share losses by BGT for these customers are about the average for all customers, the market share gain is heavily concentrated in one supplier.

4.4.4 Switching Between Payment Methods

Some customers will switch payment methods when they switch supplier. In particular, the perception that a significant proportion of customers will move to a direct debit payment method when switching suppliers was an important factor in considering whether direct debit should be identified as a separate sub-market in Ofgas' discussions on ValuePlus.¹⁷ Table 4 below shows how, in Phases 1 and 2, the number of customers paying by different payment methods changed between the introduction of competition and the end of November 1997.

Table 4 – Changes in Numbers of Customers Paying by Different Payment Methods in Phases 1 and 2 as at end of November 1997

| Customer Numbers ¹ and Date | Payment Methods | | | |
|--|---------------------------|---------------------|-------------|-----------|
| | Direct Debit ² | Credit ³ | Pre-payment | Total |
| Number of customers before competition ⁴ | 673,788 | 1,401,956 | 98,782 | 2,174,526 |
| % using payment method | 30.9 | 64.6 | 4.5 | |
| Number of customers at 30/11/97 (all suppliers) | 791,281 | 1,353,566 | 94,318 | 2,239,165 |
| % using payment method | 35.3 | 60.4 | 4.2 | |
| Increase on numbers before competition | 117,493 | -48,390 | -4,464 | |
| % on 30/11/97 minus % before competition | 4.4 | -4.1 | -0.3 | |
| Number of customers at 30/11/97 (all suppliers except BGT) | 304,447 | 214,125 | 16,660 | 535,233 |
| % using payment method | 56.9 | 40.0 | 3.1 | |
| % on 30/11/97 minus % before competition | 26.0 | -24.6 | -1.5 | |

Notes:

1. Customer numbers by payment method submitted by suppliers are scaled to match Transco totals.
2. Direct Debit includes ValuePlus.
3. Credit includes Standard Credit and OptionPay customers.
4. Increased to reflect the overall increase in supply points to 30/11/97.

Source: All domestic suppliers as of 30 November 1997, scaled to match Transco totals.

The net increase in the number of customers paying by direct debit was about 50% of the total number switching supplier and paying the new supplier by one of the other payment methods. Of this net increase in customers paying by direct debit, it is likely that a proportion will be the

¹⁷ 'Extension of British Gas Trading's 'ValuePlus' tariff to the area covered by the second phase of

result of customers moving onto one of BGT's direct debit tariffs (DirectPay or ValuePlus) from another BGT tariff. The proportion which is due to a net movement of customers to direct debit on switching supplier is therefore likely to be lower. The data do not therefore support the view that a majority of customers paying by another method switch to paying by direct debit when they switch supplier. The implication is that a large proportion of customers willing to move to direct debit had already done so before switching from BGT.

More recent evidence from the MORI survey carried out in July and August 1998 suggests that if anything the percentage of switchers paying by direct debit nationally is lower than the figure of 57% given in the table, with 47% of switchers and 37% of non-switchers paying by this method.

Table 4 shows that at the end of 1997 the net result of the higher switch rate amongst BGT's direct debit customers and the number of customers moving onto direct debit when they switch suppliers is that the total number of direct debit customers served by BGT's competitors was higher than the total number served by them on other payment methods. This is in spite of the fact that direct debit customers made up only 31% of the total before the introduction of competition. However, for suppliers other than the two suppliers who have specifically targeted direct debit customers, the largest numbers of competitors' gains have been in credit customers.

As noted earlier, from 4 March 1997 in Phase 1 and from 2 September 1997 in Phase 2, BGT's customers also had the option of switching to ValuePlus. By the end of November 1997, 16% of BGT's customers had switched to ValuePlus in Phase 1. However, for Phase 2 only 3% of BGT's customers had switched to ValuePlus by the end of November. The fact that BGT subsequently announced its intention to introduce new prices for its GB wide tariffs on 11 September 1997 may explain the low level of customers switching to ValuePlus in Phase 2. The effect of the new GB wide prices was to bring DirectPay and ValuePlus customers onto identical tariffs from 12 January 1998.

4.5 Payment Methods and Pricing

Domestic suppliers were asked to describe the range of payment methods they offered.

competition - A consultation document', Ofgas, September 1997.

They were also asked the amount of their annual bills (excluding VAT) at different consumption levels based on their tariffs as of 30 November 1997. This information has subsequently been revised up to the end of August 1998.

4.5.1 Payment Methods

Table 5 lists the payment methods offered by BGT and table 6 gives information about the number of suppliers who offer each BGT payment method.

Table 5 - BGT Payment Methods as at the end of August 1998

| Payment Method ¹ | Tariff Paid ² |
|---|--------------------------|
| Monthly direct debit, (equal instalments) | DirectPay/OptionPay |
| Monthly standing order, (equal instalments) | OptionPay |
| Quarterly variable direct debit (based on actual consumption) | OptionPay |
| Payment on receipt of quarterly bill ³ | Standard Credit |
| Payment on receipt of quarterly bill with discount for prompt payment | OptionPay |
| Weekly payment instalments ⁴ | Standard Credit |
| Fortnightly payment instalments ⁴ | Standard Credit |
| Monthly payment instalments ⁴ | Standard Credit |
| Fuel Direct (payments made by DSS) | Standard Credit |
| Pre-payment meter ⁵ | PrePayment |

Notes:

1. Goldfish points can be used in conjunction with any of the payment methods listed.
2. BGT now refers to payment methods, rather than the tariff names DirectPay, OptionPay, Standard Credit and PrePayment, in its customer literature. It has also applied to Ofgas to restructure its price schedule to refer to payment methods rather than the four existing tariff names. This proposal is included in the formal consultation on Ofgas' proposal to modify BGT's tariff caps.
3. By cash, cheque, postal order or gas stamps.
4. By magnetic card.
5. Coin, magnetic token or electronic token meters.

Table 6 - Payment Methods Offered by Competitors as at the end of August 1998

| BGT Payment Method | No of Competitors offering the Payment Method |
|---|---|
| Monthly direct debit, (equal instalments) | All |
| Monthly standing order, (equal instalments) | 0 |
| Quarterly variable direct debit (based on actual consumption) | 6 |
| Payment on receipt of quarterly bill ¹ | All |
| Payment on receipt of quarterly bill with discount for prompt payment | 1 |
| Weekly payment instalments | 2 |
| Fortnightly payment instalments | 2 |
| Monthly payment instalments | 3 |
| Fuel Direct (payments made by DSS) | All |
| Pre-payment meter ² | All ³ |

Notes:

1. By cash, postal order or cheque. Some suppliers allow customers to pay bills by credit card although BGT does not, except indirectly for Goldfish cardholders. However, BGT offers gas stamps as a payment method for quarterly bills. Ofgas has not received information to indicate that any other suppliers accept gas stamps as payment.
2. BGT offers coin, magnetic token and electronic token meters. Other suppliers offer only electronic token meters.
3. All suppliers are required under Standard Condition 19 to offer pre-payment meters to their customers as an alternative to disconnection. However, one supplier does not publish a pre-payment tariff as it does not as yet have any customers who have reached this point in the debt follow up process.

Source: Suppliers

In general, BGT's competitors offer a wide range of payment methods, including monthly direct debit, payment on receipt of quarterly bill and electronic token pre-payment meters.

Some other BGT payment methods are not offered by other suppliers. No competitor publishes a tariff for payment by monthly standing order and only one supplier offers a discount for payment of a quarterly bill within a specified period. Both of these payment methods are covered by BGT's OptionPay tariff. No supplier yet offers any payment method significantly different from methods offered by BGT although some suppliers allow customers to pay bills by credit card which BGT does not offer, except indirectly for Goldfish cardholders.

4.5.2 Prices

Table 7 shows annual bills that would be charged by BGT's competitors as of 30 November 1997 as compared to BGT's bills on the same date for three main tariff groups (i.e. Direct Debit, Standard Credit and PrePayment). A customer moving to the same type of tariff could have saved as much as 20% for direct debit, 20% for standard credit and 11% for pre-payment. A

wide range of prices contribute to these averages, but a customer could on average save 16% for direct debit, 17% for standard credit and 4% for pre-payment. In addition, direct debit customers transferring to BGT's ValuePlus tariff benefited by 5.5%, compared to customers remaining on BGT's DirectPay tariff.

Table 7 – Range of Annual Bills Offered by BGT and its Competitors as at the end of November 1997

| Range of annual bills | Payment Method ¹ (Average level of annual consumption) | | |
|--|--|--|-----------------------------|
| | Direct debit ² (691 therms) | Standard credit ³ (614 therms) | Pre-payment (425 therms) |
| BGT's annual bill from 3 July 1995 to 30 November 1997 (£) | 316.64 | 305.32 | 235.92 |
| Weighted average ⁴ bill for BGT's competitors on 30 November 1997 (£) | 265.85 | 254.64 | 227.25 |
| Reduction from BGT's bill on 30 November 1997 (%) | 16 | 17 | 4 |
| Highest annual bill for competitors on 30 November 1997 (£) | 288.72 | 262.34 | 247.60 |
| Reduction from BGT's bill on 30 November 1997 (%) | 9 | 14 | -1 |
| Lowest annual bill for competitors on 30 November 1997 (£) | 254.35 | 243.00 | 210.45 |
| Reduction from BGT's bill on 30 November 1997 (%) | 20 | 20 | 11 |
| Range of competitors' annual bills on 30 November 1997 (£) | 34.37 | 19.34 | 37.15 |

Notes:

1. Classification of competitors' tariffs into payment methods is based on suppliers' CMR returns.
2. Not including ValuePlus.
3. Not including OptionPay.
4. Weighted by number of customers on that tariff.

Source: CMR returns.

Since November 1997 there have been changes both to BGT's tariffs and to its competitors' tariffs. As shown in Table 8, by the end of August 1998 the possible cost savings for customers by switching supplier had reduced, following BGT's price reductions in January 1998.

However, a customer moving from BGT to an equivalent tariff with a competitor could still

have saved as much as 12% for direct debit, 21% for standard credit and 10% for pre-payment. BGT's DirectPay and ValuePlus tariffs were set at the same level from 12 January 1998.

Table 8 - Range of Annual Bills Offered by BGT and its Competitors as at the end of August 1998^{1,2}

| Range of annual bills | Payment Method ³ (Average level of consumption) | | |
|---|--|--|-----------------------------|
| | Direct debit (691 therms) | Standard credit ⁴ (614 therms) | Pre-payment (425 therms) |
| BGT's annual bill (£) | 287.80 | 303.14 | 235.91 |
| Highest annual bill for BGT's competitors (£) | 281.27 | 280.48 | 254.92 |
| Reduction from BGT's bill (%) | 2 | 8 | -3 |
| Lowest annual bill for BGT's competitors (£) | 253.62 | 240.93 | 212.99 |
| Reduction from BGT's bill (%) | 12 | 21 | 10 |
| Range of competitors' annual bills (£) | 27.65 | 39.55 | 41.93 |

Notes:

1. This table excludes tariffs for supplies to customers connected to Independent Public Gas Transporters' networks (AGAS and The Gas Supply Company) and tariffs which have no standing charges (Gas West).
2. Weighted average bills cannot be calculated for a date later than 30 November 1997, because customer numbers by payment method for competitors are taken from CMR returns.
3. Classification of competitors' tariffs into payment methods is based on suppliers' CMR returns.
4. Not including OptionPay.

Source: Suppliers

4.5.3 Differentials Between Tariffs

Table 9 below shows differentials between bills for different payment methods for BGT and its competitors at an annual gas consumption level of 650 therms, as at the end of August 1998. As noted earlier, BGT has announced a reduction in a PrePayment charges to the same level as Standard Credit tariffs from 1 October 1998.

Table 9 - Differentials Between Tariffs as at the end of August 1998¹

| Supplier | Pre-payment minus Standard credit (%) ² | Pre-payment minus Direct debit (%) ² | Standard credit minus Direct debit (%) ² |
|---|--|---|---|
| BGT | 2.7 | 16.7 | 14.40 |
| Amerada Hess Gas (Domestic) Ltd | 19.0 | 20.5 | 1.80 |
| Beacon Gas ³ | 19.0 | 23.2 | 5.2 |
| Calortex ³ | 16.5 | 24.9 | 10.0 |
| Cambridge Gas Co. Ltd | 21.8 | 26.3 | 5.7 |
| CPL British Fuels | 19.0 | 25.3 | 7.7 |
| Crown Energy ⁴ | - | - | 16.0 |
| Eastern Natural Gas Ltd | 25.2 | 29.7 | 6.0 |
| London Electricity | 19.3 | 22.9 | 4.4 |
| Midlands Gas Ltd | 19.9 | 21.7 | 2.2 |
| Midland Shire Farmers Ltd | 23.0 | 28.9 | 7.7 |
| Northern Electric Ltd ³ | 21.8 | 25.2 | 4.4 |
| Northern Energy | 13.9 | 21.2 | 8.5 |
| North Wales Gas | 24.8 | 27.2 | 3.2 |
| Norweb Gas | 18.8 | 21.8 | 3.7 |
| Scottish Power ³ | 17.3 | 21.0 | 2.1 |
| Southern Electric Gas | 26.5 | 31.0 | 6.1 |
| Sterling Gas | 22.5 | 25.5 | 3.9 |
| SWALEC Gas | 19.6 | 22.9 | 4.1 |
| SWEB | 13.8 | 15.3 | 1.8 |
| York Gas | 20.4 | 23.6 | 4.1 |
| Yorkshire Electricity | 19.9 | 23.3 | 4.3 |
| Differentials incorporated in re-balanced tariff caps proposed for BGT's supply price control | 0.0 | 9.11 | 9.11 |

Notes:

1. Excludes tariffs applying only to customers connected to Independent Public Gas Transporters' networks (excludes AGAS and The Gas Supply Company) and tariffs with no standing charge (Gas West).
2. As a percentage of the first tariff mentioned.
3. Differential is an average of the range of tariffs on offer.
4. Crown Energy does not publish a pre-payment tariff.

In general, competitors' differentials between pre-payment and other tariffs are higher than Ofgas now considers appropriate for BGT, but their differentials between standard credit and direct debit are generally lower. Although competitors' cost structures will not exactly

correspond to BGT's, the data do provide an indication that although pre-payment customers have benefited from competition, suppliers may not be competing on price to these customers to the same extent as to other customers. This picture is consistent with the data on market shares, showing that a relatively small number of suppliers had a significant share of this part of the market, indicating that the development of competition was in some respects less advanced for these customers than for others.

4.5.4 Position of Competitors Relative to BGT

In order to understand the development of domestic competition it is important to assess the relative position of BGT's tariffs against those of its competitors, both now and during the build up of competition in Phases 1 and 2. Table 10 sets out comparisons between BGT's ValuePlus tariff and competitors' direct debit tariffs at the times when ValuePlus was introduced in Phases 1 and 2. Table 11 sets out the comparison for all tariffs on 30 November 1997. These may be compared with Table 12, which shows the relative levels of BGT's GB-wide tariffs, and its competitors' tariffs as at the end of August 1998.

Table 10 - Comparison of BGT's ValuePlus Tariff with Competitors' Direct Debit Tariffs¹ in Competition Phases 1 and 2

| Suppliers | Phase 1 Competition Area (May 1997) INDEX, BGT ValuePlus = 100 ² | Phase 2 Competition Area (September 1997) INDEX, BGT ValuePlus = 100 ² |
|--|---|---|
| British Gas Trading – ValuePlus | 100 | 100 |
| Amerada Hess Gas (Domestic) Ltd | 96.1 | 96.1 |
| Beacon Gas | 100.3 | 93.8 |
| Calortex | 90.9 | 90.9 |
| CPL British Fuels | 95.1 | 95.9 |
| Eastern Natural Gas Ltd | 85.0 | 85.0 |
| London Electricity | 90.6 | 90.7 |
| Midlands Gas Ltd | 88.7 | 88.7 |
| Northern Electric Ltd | 92.1 | 91.8 |
| Norweb Gas | 90.4 | 90.4 |
| Scottish Power | - | 85.5 |
| Southern Electric Gas | 91.2 | 91.7 |
| Sterling Gas | - | 92.8 |
| SWALEC Gas | - | 91.4 |
| SWEB | 88.6 | 88.1 |
| Mean ³ Index for BGT's Competitors | 91.7 | 90.9 |
| Median ⁴ Index Tariff for BGT's Competitors | 90.6 | 91.1 |

Notes:

1. Excluding any additional special offers (e.g. vouchers for other goods).
2. The index is based on the bill for a customer using the average number of therms consumed in the specified area at the specified date (630 therms and 690 therms for Phase 1 and Phase 2 respectively).
3. Average index formed by summing all the indices and dividing by the number of competitors.
4. The middle value of the indices when arranged in ascending order.

Table 11 – Comparison of the Direct Debit, OptionPay, Standard Credit and Pre-payment Tariffs of All Suppliers in the Domestic Market as at 30 November 1997¹

| Tariffs | INDEX, BGT ValuePlus = 100 ^{2,3} | INDEX, BGT OptionPay = 100 ⁴ | INDEX, BGT Standard Credit = 100 ⁵ | INDEX, BGT Pre-payment = 100 ⁶ |
|--|---|---|---|---|
| British Gas Trading | 100 | 100 | 100 | 100 |
| BGT Direct Pay | 105.6 | | | |
| Amerada Hess (Domestic) Ltd | 86.2 | 84.6 | 82.4 | 100.9 |
| Beacon Gas | 86.2-93.8 | 83.6-86.5 | 82.2-85.1 | 101.0 |
| Calortex | 85.3-87.7 | 85.4-87.8 | 84.1-86.4 | 95.4 |
| CPL British Fuels | 91.9 | 86.0 | 83.7 | 88.2 |
| Eastern Natural Gas Ltd | 85.0 | 82.1 | 80.0 | 100.9 |
| London Electricity | 90.7 | 86.1 | 85.1 | 101.0 |
| Midlands Gas Ltd | 88.6 | 80.6 | 80.3 | 95.4 |
| Northern Electric Ltd | 84.8-84.9 | 78.9-81.7 | 79.6 | 96.9 |
| North Wales Gas | 88.1 | 82.4 | 80.3 | 95.4 |
| Norweb Gas | 88.2 | 83.2 | 81.0 | 93.5 |
| Scottish Power | 89.0-92.5 | 84.9-88.2 | 82.7-83.8 | 93.6 |
| Southern Electric Gas | 89.1 | 86.4 | 84.2 | 100.0 |
| Sterling Gas | 86.1 | 81.0 | 78.9 | 95.4 |
| SWALEC Gas | 86.7 | 82.1 | 80.0 | 93.5 |
| SWEB | 86.2 | 84.6 | 82.4 | 96.9 |
| York Gas | 87.6 | 82.7 | 80.9 | 96.9 |
| Yorkshire Electricity | 88.3 | 84.1 | 81.9 | 95.6 |
| Mean ⁷ Index for BGT's Competitors ⁸ | 87.9 | 83.8 | 81.9 | 96.5 |
| Median ⁹ Index for BGT's Competitors | 88.1 | 84.1 | 81.9 | 95.6 |

Notes:

1. Excluding any additional special offers (e.g. vouchers for other goods).
2. Tariffs calculated using BGT's GB average DirectPay consumption level of 691 therms a year.
3. Note that outside the Phase 1 and Phase 2 areas BGT's ValuePlus tariff was not available, so alternative suppliers were competing with BGT's DirectPay tariff for direct debit customers outside those areas. On 30 November 1997 Phase 3 had only just begun to open, with Tranche 1 having been open for 1 month. However, alternative suppliers were already marketing to customers in the later tranches.
4. Tariffs calculated using BGT's GB average OptionPay consumption level of 621 therms a year.
5. Tariffs calculated using BGT's GB average Standard Credit consumption level of 614 therms a year.
6. Tariffs calculated using BGT's GB average PrePayment consumption level of 425 therms a year.
7. Average index formed by summing all the indices and dividing by the number of competitors.
8. Results differ slightly from the figures given in Table 6 based on weighted averages. Table 6 compares direct debit bills with BGT's DirectPay tariff and all bills for quarterly credit with BGT's Standard Credit tariff, whereas the data presented here treat OptionPay and Standard Credit separately. Use of an unweighted average in this table allows direct comparison with Tables 9 and 11 for which weighted averages are not available.
9. The middle value of the indices when arranged in ascending order.

Table 12 – Comparison of the Present Direct debit, Standard credit and Pre-payment Tariffs of All Suppliers¹ in the Domestic Market² as at the end of August 1998

| Tariffs | INDEX, BGT Direct Pay and ValuePlus = 100 ³ | INDEX, BGT OptionPay = 100 ⁴ | INDEX, BGT Standard Credit = 100 ⁵ | INDEX, BGT Pre-payment = 100 ⁶ |
|---|--|---|---|---|
| British Gas Trading | 100 | 100 | 100 | 100 |
| Amerada Hess Gas (Domestic) Ltd | 95.0 | 92.0 | 83.0 | 96.0 |
| Beacon Gas | 89.8 - 97.7 | 91.9 - 95.1 | 82.8 – 89.8 | 96.6 |
| Calortex | 88.9 - 91.3 | 93.9 - 96.5 | 84.7- 87.0 | 95.4 |
| Cambridge Gas Co. Ltd | 91.3 | 96.5 | 86.9 | 95.9 |
| CPL British Fuels | 92.2 | 97.3 | 84.3 | 92.6 |
| Crown Energy ⁷ | 90.9 | 102.7 | 92.5 | |
| Eastern Natural Gas Ltd | 88.5 | 89.4 | 80.6 | 100.1 |
| London Electricity | 90.5 | 92.7 | 81.2 | 93.6 |
| Midlands Gas Ltd | 92.3 | 89.7 | 80.9 | 94.8 |
| Midland Shire Farmers Ltd | 89.6 | 92.0 | 82.9 | 100.1 |
| Northern Electric Ltd | 88.4 - 89.7 | 88.9 | 80.2 | 94.1 |
| Northern Energy | 94.5 | 98.1 | 88.4 | 95.4 |
| North Wales Gas | 91.7 | 92.7 | 80.9 | 100.1 |
| Norweb Gas | 91.8 | 90.8 | 81.6 | 93.5 |
| Scottish Power | 92.7 - 96.3 | 91.2 - 93.6 | 82.3 - 84.4 | 93.6 |
| Southern Electric Gas | 92.7 | 94.1 | 84.8 | 102.9 |
| Sterling Gas | 89.7 | 88.2 | 79.5 | 95.4 |
| SWALEC Gas | 90.3 | 89.4 | 80.6 | 93.3 |
| SWEB | 95.0 | 92.0 | 83.0 | 90.3 |
| York Gas | 91.2 | 90.4 | 81.5 | 96.0 |
| Yorkshire Electricity | 91.9 | 94.8 | 82.5 | 95.6 |
| Mean ⁸ Index for BGT's competitors | 92.1 | 93.3 | 84.0 | 95.4 |
| Median ⁹ Index for BGT's competitors | 91.8 | 92.6 | 82.9 | 95.4 |

Notes:

1. Excludes tariffs applying only to customers connected to Independent Public Gas Transporters' networks (excludes AGAS, The Gas Supply Company) and tariffs with no standing charge (Gas West).
2. Excluding any additional special offers (e.g. vouchers for other goods).
3. Tariffs calculated using BGT's GB average DirectPay consumption level of 691 therms a year.
4. Tariffs calculated using BGT's GB average OptionPay consumption level of 621 therms a year.
5. Tariffs calculated using BGT's GB average Standard Credit consumption level of 614 therms a year.
6. Tariffs calculated using BGT's GB average PrePayment consumption level of 425 therms a year.
7. Crown Energy currently does not have any customers on pre-payment meters.
8. Average index formed by summing all the indices and dividing by the number of competitors.
9. The middle value of the indices when arranged in ascending order.

Tables 10, 11 and 12 show that at average consumption levels BGT's prices both now and during 1997 were above the level of its competitors in almost all cases.

The relationship of the average of competitors' direct debit tariffs to BGT's ValuePlus tariff as at the end of August 1998 was broadly the same as it was when ValuePlus was introduced, at

around 92% of the ValuePlus tariff (now the combined ValuePlus/DirectPay tariff), although there was an increase in the differentials around November. The range of competitors' tariffs has generally narrowed over time, except for a small number of suppliers who do not operate on a GB-wide basis. In percentage terms, the gap between the highest and lowest direct debit tariffs offered by BGT's competitors fell from 15% of the ValuePlus bill in May 1997 (in the Phase 1 area) to 10% by May 1998 over the whole of Great Britain. By the end of August, with the inclusion of a number of small regional players, the gap between BGT's competitors had risen to 16% of the ValuePlus bill. Even though the ValuePlus tariff has fallen during the period in question these data suggest that the average level of competitors' direct debit tariffs relative to ValuePlus has not changed very much.

Since November 1997 the differential between BGT's Standard Credit tariff and its competitors' has changed little on average, though decreasing somewhat after BGT's tariff changes on 12 January 1998. Nevertheless, BGT's prices at average consumption levels remain higher than those of its competitors.

In general, most alternative suppliers have not yet brought forward tariffs which compete directly with BGT's OptionPay tariff, although most suppliers' standard tariffs are cheaper than BGT's OptionPay tariff. For pre-payment customers the range of competitors' tariffs has changed little, but the gap between competitors and BGT has narrowed, with some competitors charging more than BGT by May 1998.

In summary, the overall picture is one of competitors continuing to offer lower prices than BGT, but with different levels of discounts being offered to different types of customer.

4.6 Summary

Customers of all social and economic groups, and customers from all of BGT's tariff groups have benefited from competition. The recent MORI research, carried out in July and August 1998, shows that customers in lower income groups are now switching to new suppliers at a higher rate than customers in the higher income groups. The proportion of switchers who found switching easy was high, and doorstep selling continues to be an effective method of communication with gas customers, particularly amongst the lower income groups. In addition, it appears that the net effect of competition is an improvement in service for both switchers and non-switchers. Although the majority feel well informed about the changes, there continues to be a minority which is confused over certain issues.

Data collected by Ofgas provides some evidence that suppliers are taking action to meet their social obligations. However, there are a number of analytical difficulties arising from the quality of the data. As a consequence, Ofgas proposes to send out guidance notes on how to complete the current compliance statements. In addition, Ofgas will be writing to licensees and other interested parties to revise the format of the information requests.

24 companies are competing with BGT to supply the domestic market. By the end of 1997 there were 18 suppliers which had between them captured 24% of the first two competition phases.

By the end of August 1998, 14 weeks after the completion of the last phase of the opening of Great Britain to domestic gas competition, 15% of all customers had switched to an alternative supplier. Whilst there has been a tendency for losses to begin to level out in phases 1 and 2 at around 25%, there was significant movement between non-BGT suppliers. Importantly, the total number of customers switching per month over the whole country remained at a similar level.

Competition is more vigorous for direct debit customers than for any other group. However, data do not support the view that the majority of customers paying by another method switch to paying by direct debit when they switch supplier.

In general, BGT's competitors offer a wide range of payment methods, including monthly direct debit, payment on receipt of quarterly bill and electronic token pre-payment meters. Although pre-payment customers have benefited from competition, suppliers may not be competing on price to these customers to the same extent as to other customers.

Customers moving from BGT to an equivalent tariff with a competitor can still save as much as 12% for direct debit, 21% for standard credit and 10% for pre-payment. At average consumption levels BGT's prices both now and during 1997 were above the level of its competitors in almost all cases.

5. Future Development of Competition

This chapter begins with a review of the prospects for competition. Taking into account the responses to our competitive market review survey and subsequent developments, we identify a number of issues which will affect the future development of competition in the domestic market (section 5.1). These are principally related to the question as to whether BGT is pre-empting the development of competition (sections 5.2). In particular, Ofgas considers BGT's behaviour in relation to:-

- ◆ offering 'dual fuel' tariffs (section 5.3);
- ◆ marketing other products and services designed to complement gas sales (section 5.4);
- ◆ advertising (section 5.5); and
- ◆ the transfer of customers to non-BGT suppliers (section 5.6).

We also consider the affect on competition of suppliers' ability to block transfers of customers in debt (section 5.7). A summary is provided in section 5.8.

5.1 Initial Assessment of Prospects for Competition

As each market area has been opened, a very similar pattern of a declining rate of loss from BGT has been found. From a opening position of zero loss, this type of pattern must be expected. However if this rate tends to zero, further market penetration stops. In the more mature competition phases 1 and 2, the data presented in Figures 2 and 3 appear to indicate that this may be occurring. However, there are a number of reasons for believing that this is unlikely to be the case in the longer term.

The implication of the market survey carried out for Ofgas by MORI in 1997 was that there is further potential for BGT's competitors to increase their market share, by increasing customers' awareness of the price reductions available (although for a significant minority of switchers the exact level of the discount is not a key factor). Conversely, significant marketing by BGT which led customers to believe that competitors' prices are no lower than BGT's would be likely to lower BGT's loss of market share.

MORI's survey work in December 1997 also indicated that there was still significant potential for BGT's competitors to increase their market share even in the areas which were opened to competition first, although progress was likely to be slower than in the earlier stages of competition.

The new MORI survey carried out nationally in July and August 1998 also gave an indication of the extent of switching which could be expected at that time. Amongst non-switchers 10% of customers considered themselves 'fairly likely' or 'very likely' to switch in the next 12 months. This figure increases to 15% when considered over 3 years.

The size of a competitor's task in aiming for a substantial national market share in the shortened time scales for the introduction of competition was, and is, formidable. The intensity of coverage of marketing initiatives that is possible in the smaller, earlier markets is unlikely to be sustainable as larger markets are opened. More time will have to be taken to gain the same number of customers. Marketing effort at the end of 1997 and during 1998 is likely to have been focused on the new markets as they opened up, rather than on the markets opened earlier. This view is supported by the observed switching rates over the whole country as shown in Figure 4.

Second, there are a number of variations in offers and innovations in service which have yet to be launched. For example, as noted earlier, the payment methods offered by competitors are still more limited than the payment methods offered by BGT, and most competitors do not as yet offer reductions competing directly with BGT's OptionPay tariff.

Third, competitors are still benefiting from their superior margins to BGT when on-going cash outlays are considered. If one assumes their costs are no different from BGT's except for a 5p/therm advantage on gas costs, they still have a cushion of £32.50 a year per customer at 650 therms, with which to cover their additional marketing costs. At 3p/therm advantage on gas costs, this figure would become £19.50. Competitors to BGT are virtually unconstrained in the variations on tariffs which they judge could profitably be marketed.

Fourth, that conditions so far have not become less attractive for entry is confirmed by the net addition in the numbers of active competitors.

All this underlines the importance of what competitors can now expect to experience from BGT in terms both of lowering its prices, and of the other moves open to it, particularly in terms of its marketing activities.

In particular, future concern must lie with:

- ◆ the possibility of renewed use of a separate ValuePlus (or equivalent) tariff; and
- ◆ the potential for BGT to pre-empt the development of competition. Competitors have alleged that some of BGT's actions to date are an attempt to do this.

So far as direct lowering of existing prices is concerned, on 1 October 1998 BGT reduced its prices for a PrePayment customer to the same level as for a Standard Credit customer. Further tariff changes are likely to be made in the early part of 1999, to address the remaining concerns which Ofgas has about differentials between BGT's tariffs and to make any changes which may be required in order to comply with the 1998/99 tariff caps.

Of more immediate concern is the potential for BGT, as the dominant player, to pre-empt the development of competition. In recent months, with the opening of all markets to competition and the near prospect of that opening, Ofgas' monitoring of the market has highlighted a number of concerns. These concerns centre on actions by Centrica plc¹⁸ and BGT. Competitors have also drawn Ofgas' attention to a number of these actions, which they consider damage, or will damage, their business.

BGT and Centrica have undertaken a number of activities, which taken individually would not be expected to have the object or effect of restricting, distorting or preventing the development of competition in the domestic gas market, but which taken together may have this effect.

To date, the most important of the initiatives taken by BGT and Centrica, as reported by competitors, have been:

- ◆ announcing intentions to exploit an opportunity in principle open to all competitors, namely offering 'dual fuel';

¹⁸ BGT is a subsidiary of Centrica plc. BGT is licensed to supply and ship gas under the Gas Act 1986.

- ◆ marketing products or services designed to complement sales of gas;
- ◆ advertising; and
- ◆ concerns have also been raised that BGT may be taking advantage of its particular position as the incumbent, in the process of transferring customers to new suppliers.

Before the above initiatives set out above are discussed in detail, we set out, in the following section, the principles against which Ofgas would consider whether BGT's behaviour can be said to be pre-emptive.

5.2 *Pre-Emptive Moves and Moves Aimed at Defending BGT's Dominant Position*

It is understandable that Centrica and BGT will seek to circumscribe competitors' success. The question is whether these moves are contrary to the relevant provisions of the licences or the Competition Act. Such moves may be pre-emptive, or directed at ongoing competition.

In defending an established dominant position, a large range of moves is open to an incumbent. A pre-emptive move in the present context is one made ahead of the opening of a market, which is intended to inhibit or delay the entry of a competitor or competitors. When competitors are present, similar moves taken together may also have the object or effect of restricting, distorting or preventing the development of competition in the domestic gas market. Centrica and BGT have deployed several such moves, aimed at defending BGT's dominant position. To date the moves must be regarded as primarily ones which have been made ahead of the opening of a market. In deciding whether and how to use our powers under licence provisions or the Competition Act 1980 to curb such practices Ofgas has to distinguish moves which might be expected in the normal cut and thrust of business from those which stem from market power. Such judgements can only be made in the specific circumstances of the move. At the present stage of competitive development any move must be considered in the light of its possible bearing on pre-emption.

5.3 *Dual Fuel*

5.3.1 *Ofgas/Offer Consultation and Undertakings*

Dual fuel is widely thought to have specific customer appeal in offering the joint product as a more convenient way of buying fuel and cost savings to suppliers would allow lower prices to be charged to customers.

In November 1997, following representations made to them, Offer and Ofgas published a consultation paper on dual fuel offers.¹⁹ This dealt in particular with the position of public electricity suppliers (PESs) competing in the gas market before their own markets were open to competition.

Principally, the consultation paper sought to address concerns raised in representations relating to:

- ◆ the domestic gas market being opened to competition before the domestic electricity market; and
- ◆ the PES monopoly in electricity meter reading services to smaller customers being maintained until 2000.

A decision document²⁰ was issued in January 1998. In that document Offer and Ofgas asked PESs (within their authorised areas) and BGT for two undertakings:

- ◆ that companies would not enter into dual fuel contracts in their own area until their supply monopoly had ended; and
- ◆ that PESs would not undertake joint reading of gas and electricity meters unless they offered the service on a non-discriminatory basis to all suppliers, until such time as the PESs' electricity meter reading monopoly is removed.

Two additional undertakings were sought by Ofgas:

- ◆ that PESs offering both gas and electricity meter reading services will procure these services via open competitive tendering; and

¹⁹ 'Dual Fuel Offers in the Gas and Electricity Markets - Consultation Document', December 1997.

²⁰ Dual Fuel Offers in the Gas and Electricity Markets – An OFFER and Ofgas Joint Decision Document, January 1998.

- ◆ that gas suppliers who are affiliated to holders of first tier electricity licences should not offer gas to domestic customers in their own monopoly electricity supply area except in parts of those areas open to competition in electricity.

On 27 January 1998 the Electricity Association indicated that PESs would:

- ◆ only provide any additional dual fuel benefits to customers once the individual PES area is opened to electricity competition;
- ◆ work with the regulators to ensure measures to limit the distortion of the meter reading market; and
- ◆ continue to compete in the gas market both within and outside their electricity supply areas on the basis that there are no undue restrictions or distortions in the gas market in those areas.

Offer and Ofgas received formal undertakings along these lines from a number of the companies concerned, but these undertakings were conditional on undertakings being given by all the companies concerned.

Offer and Ofgas have subsequently agreed that the policy set out in Appendix 5 will apply. Essentially this policy statement incorporates the two undertakings which were previously asked for jointly by Offer and Ofgas. At present we believe that these requirements are being met by all PESs. However if the requirements are not complied with, then if necessary Offer and Ofgas will consider making a reference to the MMC under the Competition Act 1980 or the Fair Trading Act 1973.

Ofgas recently received a complaint from a gas supplier against one PES, suggesting that the PES was taking advantage of its monopoly in meter reading services to smaller customers, by offering joint meter reading services to domestic customers without making the same service available to other suppliers on a non-discriminatory basis. The particular issue raised was that the joint meter reading service offered was matched to the PES's billing cycle and not to the billing cycle of other suppliers. Ofgas has received an assurance from the PES concerned that it is prepared to offer its joint meter reading service to other suppliers on a non-discriminatory

basis, including matching other suppliers' billing cycles. Any other PES offering a joint meter reading service will need to meet the same requirement.

In addition to the policy statement agreed jointly with Offer and set out in Appendix 5, it is Ofgas' policy that PESs offering both gas and electricity meter reading services should procure these services via open competitive tendering.

5.3.2 BGT's Dual Fuel

Several months ago, BGT began offering dual fuel energy supplies. BGT does not offer customers a single dual fuel contract. Instead, it offers separate contracts. However, if a customer takes both gas and electricity from BGT he/she receives a discount on his/her 'electricity' standing charge of just under £3.50 a quarter (or just under £14 a year). No such discount is available to electricity only customers.

Similarly, BGT is presently offering those domestic customers who purchase both electricity and gas a guarantee that its 'electricity' prices will be cheaper than those of local suppliers until 2001.

Ofgas is concerned to ensure that in making the dual fuel offers described above, BGT has acted within the terms of its licence and has not acted anti-competitively. Ofgas has no doubt that although the dual fuel discount is applied only to the electricity tariff it is a principal term of supply in relation to gas, because it affects the reasonable evaluation of BGT's gas tariffs.

BGT's dual fuel discount could be considered to be a cross-subsidy from its regulated gas business. BGT could have reflected an appropriate proportion of the dual fuel savings in gas tariffs. However, BGT chose not to do this. From discussions with BGT, it has become clear that they have intentionally passed the savings on to electricity customers.

A particular competitive concern is that where lower prices are applied in the guise of savings for one fuel (as BGT has applied its dual fuel discount to electricity standing charges, rather than to both gas and electricity), it may also be a covert way to cut prices on gas, raising questions of predation.

Against this background, Ofgas intends to investigate BGT's dual fuel arrangements further and will publish our findings in due course.

5.4 Other Products and Services Designed to Complement Gas Sales

These are activities which have no direct bearing on sales of gas in the sense of cost savings resulting from linking the activities, but the promotion of which can boost gas sales. The chief examples have been the Goldfish credit card and insurance services. In addition, BGT has recently undertaken a new venture with the supermarket chain, Sainsbury's.

5.4.1 Goldfish: BGT's Credit Card Joint Venture

The Goldfish credit card was launched on 11 September 1996 by Goldbrand Development Ltd (GDL). GDL is a joint venture company established by BGT and Household International (UK) in which each has a 50:50 equity stake. In May 1997, Ofgas published a consultation document²¹ as a result of complaints made by some other gas suppliers that the Goldfish scheme might be anti-competitive or constitute undue discrimination.

Ofgas' conclusions, published in October 1997²² were that provided it is clear that customers who wish can redeem their points against their final BGT account if they wish to change to an alternative gas supplier, and that BGT will refund any surplus credit in cash to the customer, the operation of Goldfish does not constitute an unfair method by BGT of pursuing advantage in the gas markets. The offering of a credit card is an opportunity open to other suppliers, and the holding of a Goldfish card does not tie customers to BGT as their gas supplier because Goldfish points can be redeemed against a wide range of other goods and services. In relation to undue discrimination and undue preference, Ofgas asked BGT to make the facility for bill payment using Goldfish points available to PrePayment customers and to small business gas users in the market at or below 2,500 therms. In the case of small business users, BGT agreed to this. In the case of PrePayment customers BGT said that it would monitor the number of customers seeking this service over a three month period and if there was significant demand it would look into a possible redemption process against PrePayment accounts. As a result of the small number of PrePayment customers asking for this facility during the monitoring period, Ofgas has asked BGT to put in place a manual process for dealing with these customers. BGT and Ofgas are discussing whether this may be achieved in a cost-effective manner.

No new issues relating to Goldfish were raised in the responses to the Competitive Market Review.

²¹ 'Goldfish: British Gas Trading's credit card joint venture - A Consultation Document', Ofgas, May 1997.

²² 'Goldfish: British Gas Trading's credit card joint venture - A Decision Document', Ofgas, October 1997.

5.4.2 BGT's Insurance Initiative

On 1 December 1997, Centrica announced that it was launching a trial of a home and contents insurance package in a joint venture with Privilege Insurance offering up to a third of the premium back in rebates on a number of Centrica products and services including British Gas bills. The third of the premium rebate may also be taken as Goldfish points. BGT has confirmed that the same arrangements for redemption of Goldfish points will apply as applied for the Goldfish card, i.e. payments are made by the insurance company's account using the same system as is used for direct debit payments. This raises the same issues as the Goldfish card and results in the same requirements on BGT, namely that the facility for bill payment should be made available to small businesses and potentially to PrePayment customers; and that information should be added to BGT's bills to make it clear that customers who wish can redeem their points against their final account if they wish to change to an alternative supplier and that BGT will refund any surplus credit in cash to the customer. BGT has confirmed that it will deal with these issues in relation to the insurance initiative in the same way as for the Goldfish card.

However, although the formal terms of the insurance package appear acceptable, Ofgas has received a complaint that a customer was given information by call centre staff which gave a different impression of the discounts on offer. The customer was led to believe that rebates were only paid by means of reductions on BGT gas bills. This is misleading and could have the effect of a tie-in of customers to BGT. Ofgas' own investigations have shown that in general, information given by call centre staff is correct, but there are occasionally problems. Ofgas has obtained assurances from BGT that call centre staff will be trained to ensure that customers are informed of all the ways in which rebates related to the insurance package can be achieved.

5.4.3 Sainsbury's and BGT's Recent Initiative

Recently, BGT began a campaign to market its electricity suppliers in conjunction with Sainsbury's. BGT is offering new electricity customers 1000 Sainsbury's 'Reward points' (which is equivalent to a credit of £10 towards purchases at Sainsbury's).

BGT has stated that the initiative applies solely to electricity customers, and is available whether or not the electricity customer is also a BGT gas customer.

On this basis, Ofgas is inclined to consider this as legitimate competition in the electricity market. Nevertheless, we would welcome views on this issue.

5.5 Advertising

Over recent months Ofgas has received complaints and has become increasingly concerned about the manner in which Centrica plc and BGT are conducting their marketing and sales activities. Advertisements placed in national newspapers, following a World in Action programme dealing with doorstep selling activities by gas suppliers, constituted one of a number of steps taken by Centrica and BGT which have been of concern to Ofgas. These steps are listed in section 5.5.1.

5.5.1 Steps Taken by BGT

a) Advertising of BGT's Price-Controlled Tariffs

The price reductions introduced by BGT on 12 January were advertised prior to their introduction as if they were guaranteed, even though Ofgas was in the process of reviewing the proposals. Advertising after the introduction of these tariffs could have been taken to imply that a 15% reduction is generally available, whereas this level of reduction was only available to customers changing from paying by quarterly credit more than 10 days after issue of the bill (or from one of a number of special payment schemes), to monthly direct debit.

b) Denigration of Competitors

There have been a number of instances of BGT implying in its advertising that its competitors are untrustworthy, particularly in relation to doorstep selling. The same message has been put forward in BGT and Centrica comments quoted in press reports, in both local and national papers.

c) BGT's Information Line

BGT's telephone information line has been promoted in a variety of advertising material in such a way that there could be a risk that customers will form the impression that the information line is an independent customer advisory service rather than a part of BGT's marketing activity.

d) *Safety*

Advertising material alleging untrustworthiness of competitors has been associated with advertising of British Gas Services' safety checks. It could be argued that this creates an impression that BGT is associated with safety and its competitors are not.

e) *Claims that Customers are Returning to BGT*

BGT has made frequent statements to the press claiming that large numbers of gas customers, having switched to a competitor, subsequently return to BGT. These claims have not always been consistent with data which have been made available to Ofgas, and give the impression that customers often find that the service provided by BGT's competitors is worse than that provided by BGT.

f) *Customer Complaints About a Competitor*

BGT has been keeping a record of complaints made by customers against its competitors. In the process of recording the complaint, BGT has asked whether details of the complaint can be passed to the local media. This action could be viewed as a further attempt to discredit the competition to BGT's advantage.

g) *Marketing of Dual Fuel*

Marketing of BGT's dual fuel product also focused on a single figure of £123 for price reductions. The Advertising Standards Authority (ASA) has recently upheld a complaint about this campaign. It ruled that the headline gave the impression that customers were likely on average to achieve the £123 saving, whereas BGT said that in fact it only applied to 10% of customers. The ASA also upheld a complaint that the electricity savings used as the basis for the £123 campaign were out of date.

h) *ValuePlus*

Ofgas' customer survey conducted by MORI in December 1997 indicated that there was a high level of awareness of the ValuePlus tariff outside the areas where it was introduced, and that a significant number of customers expected it to be introduced in their area a short time after competition was introduced. These expectations may have arisen from BGT's advertising, and they may have had a pre-emptive effect in slowing the development of competition in those areas.

5.5.2 Assessment of BGT's Advertising

Some aspects of advertising standards are handled by the Advertising Standards Authority (ASA). However, issues relating directly to the effects of advertising on the development of competition or abuse of a dominant position, in relation to gas, fall within Ofgas' remit.

The ASA is a self-regulatory system of advertising control, funded by the advertising industry. It promotes and enforces standards in all non-broadcast advertisements in the UK, with the aim of ensuring that the British Codes of Advertising and Sales Promotion are followed. The codes require that advertisements and sales promotions should be:

- ◆ legal, decent, honest and truthful;

- ◆ prepared with a sense of responsibility to consumers and society; and

- ◆ in line with the principles of fair competition generally accepted in business.

The codes are devised by the Committee of Advertising Practice (CAP), whose members include advertising, sales promotion and media businesses. The ASA can ask an advertiser to amend or withdraw an advert. If the advertiser does not comply, the ASA can ultimately refer a misleading advertisement to the Office of Fair Trading.

The CAP has recently agreed a 'Help Note' aimed at all utilities advertisers, giving guidance on the way that price claims should be handled in advertising material. This Help Note is due to be published in the next couple of weeks. The Help Note is useful in setting advertising standards for all suppliers, but it does not address the competition issue of whether different standards should be applied to an incumbent starting with 100% of the market.

In a fully competitive market, many of the activities described above could be seen simply as evidence of vigorous competition. Advertising can range from promotion of the company's brand through tough but fair knocking copy to misrepresentation of competitors. However, in a market where there is an incumbent starting with 100% of the market and an established reputation, then the cumulative effect of actions such as those described above together with the other actions discussed in sections 5.3 to 5.6, may have a pre-emptive effect. These actions will tend to prevent competitors from establishing themselves in the market. Although the ASA may uphold complaints against some of BGT's advertising, its remit does not extend to

considering the cumulative effect of a number of actions by an incumbent starting with 100% of the market on the development of competition.

Whilst BGT has now ceased many of the particular activities referred to above, often in response to concerns raised by Ofgas, the concern about the cumulative effect of such actions remains.

5.6 BGT's Role in the Transfer Process

As the incumbent supplier when each area of the domestic market opened for competition, BGT must, of necessity, be involved in all of the initial transfers of a customer to a new supplier. Ofgas has had a number of concerns relating to the way in which BGT may be taking advantage of its special role in this process. Some examples of the concerns raised by Ofgas with BGT are set out below.

5.6.1 Delays in Handling Cancellation Forms

If customers enter into a contract with a supplier and subsequently contract with another supplier it is important that the first supplier is informed in a timely manner of the customer's wish to cancel the contract. During the rollout of competition a number of suppliers (including BGT) who entered into contracts with customers undertook to relay any customer cancellation notices they received to the previous supplier with whom the customer had been contracted.

Ofgas received evidence that when BGT entered into contracts with customers who had already entered into a contract with another supplier, BGT imposed a considerable delay on the transfer of the cancellation notices to suppliers. In a number of cases the delay meant that the supplier was unable to effect the cancellation and the customer was transferred to that supplier's portfolio. This resulted in confusion for customers and bad publicity for the new suppliers. It also meant that the customer had to take a supply of gas other than from their preferred supplier for at least 15 working days, while they were transferred back to BGT.

Ofgas is satisfied that on the whole this problem has been resolved, and had arisen primarily as a result of the roll out of competition. However, Ofgas will continue to review any complaints it receives in relation to this matter.

5.6.2 Exit-Letter

Until recently, the “exit letter” sent by BGT to all customers transferring away from BGT immediately prior to their transfer suggested that customers could change their minds and not transfer. This was untrue at the point at which the letter was issued - the process could not be halted and the customer would always transfer to their new supplier. Nor did BGT’s letter explain that it would not be possible for the customer to return to BGT for at least 15 working days. This also resulted in confusion for customers and bad publicity for new suppliers.

5.6.3 Meter Point Reference Numbers

All suppliers are obliged to provide a customer with information on the Meter Point Reference Number of the customer’s meter. For a customer to transfer from BGT the new supplier’s shipper must send the customer’s Meter Point Reference Number and postcode to the Public Gas Transporter (PGT) so that the correct site can be identified and transferred. It has been suggested that the size and positioning of the MPR number on BGT’s bills make it difficult for the customer to locate it and may therefore make the process of transferring supplier more difficult for customers than it needs to be. It has also been suggested that when customers telephone BGT for their Meter Point Reference Number, BGT has been reluctant to provide information on MPR numbers over the telephone or subsequently make the information available in writing.

Ofgas is currently in discussion with BGT to review the size and positioning of the MPR number on its bills.

5.6.4 Delays in Handling Final Bills

During the rollout of Phase 3 of domestic competition it became clear that in a significant number of cases there were substantial delays in the provision by BGT of final bills. One reason for this was that BGT had in place poor practices in monitoring and tracking the progress of closing meter reads sent to it by Transco. The impact of this worsened the experience of competition for many transferring customers.

Ofgas will continue to review any further complaints it receives in relation to this problem.

5.6.5 BGT’s Handling of Agreed Reads

Where the opening/closing meter read is unacceptable to the customer or to either supplier the industry has agreed a mechanism to amend the opening and closing meter read for a customer’s final bill - the Agreed Read Procedure. It has been suggested that BGT has not made sufficient

resources available to enable it to monitor the process, agree the read with the other supplier and to produce final bills in a timely manner. There was also a suggestion that when customers contacted BGT to ask about the delay in the receipt of their final bill, staff in BGT's call centres were blaming the delay on the new supplier, even when the staff had access to information that suggested that the reason for the delay lay with BGT rather than with the new supplier.

Ofgas is concerned that this is still a problem and will take action where necessary.

5.6.6 BGT's Acquisition Pack

New gas suppliers entering the market have been exhorted by Ofgas to make sure that it is clear to customers when a signed "application form" has committed the customer to entering into a contract. It was suggested that the BGT "acquisition pack" which BGT send to customers who have switched to another supplier did not make it sufficiently clear that by signing and returning the form they were entering into an express contract with BGT. Customers may therefore have been misled into returning to BGT when their intention was simply to seek more information about BGT's gas supply services.

BGT has subsequently changed its "acquisition pack" to make this distinction clear.

5.6.7 BGT Entering into Express Contracts

When customers who were formerly contracted to BGT under the Former Tariff Customer Scheme (FTCS, i.e. tariff terms with no notice period), move into a new home they may telephone BGT and give it an opening meter read or inform it of their new address details. Until recently BGT was not explaining to the customer that by this action they were no longer contracted under the FTCS, but had entered into an express contract and should therefore give 28 days notice if they wished to transfer to a new supplier. If they do not give such notice then BGT has the right to object to the transfer and it does not go ahead. There is evidence that when a customer's transfer is objected to they may abandon the attempt to transfer away as being "too much effort".

Ofgas understand that BGT now makes customers aware that they have entered a contract over the telephone and sends a letter of confirmation. Contracts entered into in this way are subject to the provisions of Standard Condition 14a of the Gas Suppliers' Licence, dealing with marketing issues.

5.6.8 Transfer Objection

Under the standard conditions of its licence BGT is able to object to the transfer of an existing customer for the reasons specified in that licence. Ofgas have undertaken three audits of BGT's objection procedure in order to understand whether or not BGT has complied with this licence condition. Although there has been an improvement in BGT's objection procedures over time, each audit has identified cases where BGT have incorrectly objected to a customer's transfer. Following such an objection the customer may decide against attempting to transfer again and will have their transfer delayed by a minimum of 3 weeks.

Issues of this nature may have a direct effect in terms of customers returning to BGT or in making it harder for them to leave. Alternatively, the effect may be indirect. Administrative problems arising in the transfer process are likely to be perceived by customers either as the fault of the incoming supplier, or as a problem with competition itself. This may lead to customers switching back to BGT, or to other customers being discouraged from switching away from BGT.

Ofgas raised the above issues with BGT earlier this year, and a number of the points, as indicated, have now been addressed. Nevertheless, activities that have given cause for concern in the past may, taken together with other activities, constitute a course of conduct which may have the effect of restricting, distorting or preventing the development of competition.

5.7 Customers in Debt

In considering the further development of competition, it is also important to consider whether the legal arrangements put in place for domestic competition include elements which may hinder further development.

As noted in Chapter 4, the number of pre-payment customers who can switch to a new supplier is limited at present by the fact that a high proportion of these customers are currently repaying outstanding debt. Standard Condition 7 (4) of the Gas Suppliers' Licence allows a supplier to object to a customer switching in these circumstances. The data presented in Chapter 4 suggest that this may be an important limiting factor in relation to the number of pre-payment meter customers switching supplier.

In most other markets, a customer's current debt position is something which a new supplier needs to find out for itself; existing customers' debts are recovered through a variety of actions.

A new supplier might be willing to buy out, in one way or another, a part of the debt in order to secure a new customer. In some cases this is already occurring in the gas market.

The particular characteristics of the domestic gas market have resulted in the present licensing regime providing for suppliers to be able to block the transfer of a customer in debt to a new supplier, in order to prevent customers building up a succession of debts with different suppliers whilst avoiding the risk of disconnection.

However, Ofgas is concerned to ensure that the system in place does not hinder the development of commercial arrangements which would allow debt to be recovered by another supplier.

Some consideration has been given to improving the arrangements for assignment of debt (which have proved to be somewhat clumsy), within the Domestic Competition Focus Group (chaired by Ofgas), in response to proposals made by BGT. As a result, some changes have been made, namely:

- ◆ BGT have agreed to allow customers with acceptable payment histories to enter into a payment plan of 3 equal instalments, upon request, for a final bill. For those customers who have agreed a payment with BGT, BGT are able to assign debt up to 150 days after the transfer, rather than the 90 days allowed by the licence.
- ◆ The amount of debt which can be assigned has been increased from 33% to 50% of the annual bill.

However, neither of the changes described above deals with the issue of debt which has been outstanding for 28 days or more, and which could be used as grounds for blocking a transfer. There may therefore be further changes which could usefully be made.

Consultation on BGT's Market Moves

Ofgas would welcome comments from respondents on the issues raised in this chapter, in particular on whether it appears to respondents that BGT has gone too far in defending its position and if so, whether these actions are or have been, taken together, a serious impediment to competitors' emergence and development. To inform this judgement, Ofgas will also be interested in any further evidence on the effects of the marketing moves, either

individually or in combination, which respondents can supply. If respondents are of the view that BGT has gone too far in defending its position, we would also welcome comments on any steps which should be taken in order to address the concerns.

Views are also invited on whether any changes to the licences are required in order to ensure that customers in debt are not unduly prevented from changing supplier.

5.8 Summary

The prospects for competition are good. There appears to be further potential for BGT's competitors to increase their market share, by increasing customers' awareness of the price reductions available. Other factors include:-

- ◆ the fact that marketing effort at the end of 1997 and during 1998 is likely to have been focused on the new markets as they opened up;
- ◆ there are a number of variations in offers and innovations in service which have yet to be launched;
- ◆ competitors are still benefiting from their superior margins to BGT when on-going cash outlays are considered; and
- ◆ the net addition in the numbers of active competitors confirms that conditions so far have not become less attractive for entry.

However, of concern is the potential for BGT, as the dominant player, to pre-empt the development of competition. To date, the most important of the initiatives taken by BGT and Centrica, as reported by competitors, have been:-

- ◆ announcing intentions to exploit an opportunity in principle open to all competitors, namely offering 'dual fuel';
- ◆ marketing products or services designed to complement sales of gas;
- ◆ advertising; and

- ◆ concerns have also been raised that BGT may be taking advantage of its particular position as the incumbent, in the process of transferring customers to new suppliers.

Ofgas is concerned that where lower prices are applied in the guise of savings for one fuel (as BGT has applied its dual fuel discount to electricity standing charges, rather than to both gas and electricity), it may also be a covert way to cut prices on gas, raising questions of predation. Against this background, Ofgas intends to investigate BGT's dual fuel arrangements further and will publish our findings in due course.

No new issues relating to Goldfish were raised in the responses to the Competitive Market Review. Although the formal terms of the insurance package appear acceptable, Ofgas has received a complaint that a customer was given misleading information by call centre staff. Ofgas has now obtained assurances from BGT that call centre staff will be trained to ensure that customers are properly informed. Ofgas is inclined to consider Sainsbury's and BGT's recent initiative as legitimate competition in the electricity market.

BGT has now ceased many of its advertising activities. Nevertheless, Ofgas remains concerned about the cumulative effect of such actions.

Ofgas raised concerns over the transfer process with BGT earlier this year, and a number of the points have now been addressed. Nevertheless, activities that have given cause for concern in the past may, taken together with other activities, constitute a course of conduct which may have the effect of restricting, distorting or preventing the development of competition.

Ofgas would welcome comments from respondents on the issues raised in this chapter, in particular on whether it appears to respondents that BGT has gone too far in defending its position and if so, whether these actions are or have been, taken together, a serious impediment to competitors' emergence and development. To inform this judgement, Ofgas will also be interested in any further evidence on the effects of the marketing moves, either individually or in combination, which respondents can supply. If respondents are of the view that BGT has gone too far in defending its position, we would also welcome comments on any steps which should be taken in order to address the concerns.

Views are also invited on whether any changes to the licences are required in order to ensure that customers in debt are not unduly prevented from changing supplier.

6. Summary

6.1 BGT's Tariffs

A 'tariff cap' price control effective from 1 April 1997 – 31 March 2000 regulates all of BGT's GB-wide tariffs. It prevents BGT from compensating shareholders for price cuts to one class of customer by increasing prices to others. It thus provides price protection to all classes of BGT's customers.

Ofgas has recently reviewed BGT's GB-wide regulated tariffs against revised costs to determine whether the tariff caps should be rebalanced to prevent undue discrimination. This review resulted in a reduction in BGT's PrePayment tariff to bring it in line with BGT's Standard Credit tariff. Ofgas' review also suggested that BGT should further revise its tariffs to reduce its OptionPay and Standard/PrePayment tariffs relative to its DirectPay tariff. BGT has indicated that it will address the remaining tariff differentials to bring them into line with costs. Ofgas will be seeking to ensure that it does so no later than early 1999.

Against this background, Ofgas has considered whether the price reductions introduced by BGT on 12 January 1998 were predatory. The prices charged have been set above attributable costs and above the level required to recoup a fair contribution to joint costs. The effect of BGT's pricing in the development of competition has also been considered. We have concluded that BGT's DirectPay, OptionPay, Standard Credit and PrePayment tariffs are not predatory. This decision constitutes the final part of the reference made by the GCC, on 16 September 1997 concerning these price reductions.

ValuePlus was superseded when BGT introduced new lower prices for its DirectPay tariff on 12 January 1998, and the price for ValuePlus was reduced to the same level as DirectPay. This conclusion therefore also applies to the ValuePlus tariff.

6.2 Development of Domestic Competition to Date

Customers of all social and economic groups, and customers from all of BGT's tariff groups have benefited from competition. The recent MORI research, carried out in July and August 1998, shows that customers in lower income groups are now switching to new suppliers at a higher rate than customers in the higher income groups. The proportion of switchers who found switching easy was high, and doorstep selling continues to be an effective method of communication with gas customers, particularly amongst the lower income groups. In addition,

it appears that the net effect of competition is an improvement in service for both switchers and non-switchers. Although the majority feel well informed about the changes, there continues to be a minority which is confused over certain issues.

Data collected by Ofgas provides some evidence that suppliers are taking action to meet their social obligations. However, there are a number of analytical difficulties arising from the quality of the data. As a consequence, Ofgas proposes to send out guidance notes on how to complete the current compliance statements. In addition, Ofgas will be writing to licensees and other interested parties to revise the format of the information requests.

24 companies are competing with BGT to supply the domestic market. By the end of 1997 there were 18 suppliers which had between them captured 24% of the first two competition phases.

By the end of August 1998, 14 weeks after the completion of the last phase of the opening of Great Britain to domestic gas competition, 15% of all customers had switched to an alternative supplier. Whilst there has been a tendency for losses to begin to level out in phases 1 and 2 at around 25%, there was significant movement between non-BGT suppliers. Importantly, the total number of customers switching per month over the whole country remained at a similar level.

Competition is more vigorous for direct debit customers than for any other group. However, data do not support the view that the majority of customers paying by another method switch to paying by direct debit when they switch supplier.

In general, BGT's competitors offer a wide range of payment methods, including monthly direct debit, payment on receipt of quarterly bill and electronic token pre-payment meters. Although pre-payment customers have benefited from competition, suppliers may not be competing on price to these customers to the same extent as to other customers.

Customers moving from BGT to an equivalent tariff with a competitor can still save as much as 12% for direct debit, 21% for standard credit and 10% for pre-payment. At average consumption levels BGT's prices both now and during 1997 were above the level of its competitors in almost all cases.

6.3 Future Development of Competition

The prospects for competition are good. There appears to be further potential for BGT's competitors to increase their market share, by increasing customers' awareness of the price reductions available. Other factors include:-

- ◆ the fact that marketing effort at the end of 1997 and during 1998 is likely to have been focused on the new markets as they opened up;
- ◆ there are a number of variations in offers and innovations in service which have yet to be launched;
- ◆ competitors are still benefiting from their superior margins to BGT when on-going cash outlays are considered; and
- ◆ the net addition in the numbers of active competitors confirms that conditions so far have not become less attractive for entry.

However, of concern is the potential for BGT, as the dominant player, to pre-empt the development of competition. To date, the most important of the initiatives taken by BGT and Centrica, as reported by competitors, have been:-

- ◆ announcing intentions to exploit an opportunity in principle open to all competitors, namely offering 'dual fuel';
- ◆ marketing products or services designed to complement sales of gas;
- ◆ advertising; and
- ◆ concerns have also been raised that BGT may be taking advantage of its particular position as the incumbent, in the process of transferring customers to new suppliers.

Ofgas is concerned that where lower prices are applied in the guise of savings for one fuel (as BGT has applied its dual fuel discount to electricity standing charges, rather than to both gas and electricity), it may also be a covert way to cut prices on gas, raising questions of predation.

Against this background, Ofgas intends to investigate BGT's dual fuel arrangements further and will publish our findings in due course.

No new issues relating to Goldfish were raised in the responses to the Competitive Market Review. Although the formal terms of the insurance package appear acceptable, Ofgas has received a complaint that a customer was given misleading information by call centre staff. Ofgas has now obtained assurances from BGT that call centre staff will be trained to ensure that customers are properly informed. Ofgas is inclined to consider Sainsbury's and BGT's recent initiative as legitimate competition in the electricity market.

BGT has now ceased many of its advertising activities. Nevertheless, Ofgas remains concerned about the cumulative effect of such actions.

Ofgas raised concerns over the transfer process with BGT earlier this year, and a number of the points have now been addressed. Nevertheless, activities that have given cause for concern in the past may, taken together with other activities, constitute a course of conduct which may have the effect of restricting, distorting or preventing the development of competition.

Ofgas would welcome comments from respondents on the issues raised in this chapter, in particular on whether it appears to respondents that BGT has gone too far in defending its position and if so, whether these actions are or have been, taken together, a serious impediment to competitors' emergence and development. To inform this judgement, Ofgas will also be interested in any further evidence on the effects of the marketing moves, either individually or in combination, which respondents can supply. If respondents are of the view that BGT has gone too far in defending its position, we would also welcome comments on any steps which should be taken in order to address the concerns.

Views are also invited on whether any changes to the licences are required in order to ensure that customers in debt are not unduly prevented from changing supplier.

Appendix 1 Director General's Section 4 Duties

The following extract from the Gas Act 1986, as amended by the Gas Act 1995, sets out the Director General's duties:

"4.–(1) The Secretary of State and the Director shall each have a duty to exercise the functions assigned to him by or under this Part in the manner which he considers is best calculated–

- (a) to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- (b) to secure that licence holders are able to finance the carrying on of the activities which they are authorised or required by their licences to carry on; and
- (c) to secure effective competition in the carrying on of activities the carrying on of which is required to be licensed under section 7A below.²³

"(2) Subject to sub-section (1) above, the Secretary of State and the Director shall each have a duty to exercise the functions assigned to him by or under this Part in the manner which he considers is best calculated–

- (a) to protect the interests of consumers of gas conveyed through pipes in respect of the prices charged and the other terms of supply, the continuity of supply, the quality of the gas supply services provided and the exercise of rights under this Part to enter their premises;
- (b) to promote efficiency and economy on the part of persons authorised by or under this Part to carry on any activities, and the efficient use of gas conveyed through pipes; and
- (c) to secure effective competition–
 - (i) in the conveyance of gas through pipes to pipe-line systems and to areas to which it has not previously been so conveyed;
 - (ii) in the supplying and laying of service pipes; and
 - (iii) in the carrying on of activities ancillary to those mentioned in sub-section (1)(c) above;

and a duty to take into account, in exercising those functions, the effect on the environment (whether by way of pollution or otherwise) of activities connected with the conveyance of gas through pipes.

²³ Licensing of shippers and suppliers.

“(3) In performing his duty under sub-section (2) above to exercise functions assigned to him in the manner which he considers is best calculated to protect the interests of consumers of gas conveyed through pipes in respect of the quality of the gas supply services provided, the Secretary of State or, as the case may be, the Director shall take into account, in particular, the interests of those who are chronically sick, disabled or of pensionable age.

“(4) In this section 'environment' and 'pollution', in relation to the environment, shall be construed in accordance with section 1 of the Environmental Protection Act 1990.

“(5) In this Part, unless the context otherwise requires, 'licence' means a licence under section 7²⁴ or 7A²⁵ below and 'licence holder' shall be construed accordingly.”

²⁴ Public Gas Transporters' licences.

²⁵ Shippers and Suppliers' licences.

Appendix 2 Domestic Supply Licence Conditions in Respect of Social Obligations

The following description of Gas Suppliers' social obligations is based on Ofgas' guidance notes to applicants for a Gas Suppliers' Licence.

Condition 15: Arrangements in Respect of Social Obligations

The condition provides for licensees to submit a statement of arrangements for the purposes of satisfying Standard Conditions 16 to 19. The arrangements have to be published.

It is important to ensure that appropriate steps are taken to promote the services, and that customer documents are clear and comprehensive. Methods of promoting the availability of the services could include welcome packs for new customers and advice on or with bills.

Condition 16: Advice on the Efficient Use of Gas

Licencees must provide, on request, advice on the efficient use of gas. This advice should be given or prepared by a suitably qualified person covering, in particular, advice on six aspects of energy efficiency specified by the licence.

The most common general qualification for persons giving or preparing advice is City and Guilds Energy Awareness. This should be regarded as the minimum acceptable level of expertise.

The fuel industry norm for promotion of energy efficiency advice is provision of telephone advice, backed up by general information in the form of leaflets. Generally, gas bills should include contact information (preferably free phone or free post) on energy efficiency advice.

Suppliers may out-source energy efficiency advice to specialist agencies such as the Energy Savings Trust.

Condition 17: Services for Pensioners, Disabled and Chronically Sick Persons

Licencees must provide, on request, and without charge, a safety check on gas appliances and other gas fittings for these customers at intervals of not less than 12 months. Suppliers must also, so far as is reasonably practical and appropriate, provide special controls or adapters for

pre-payment meters; provide for the repositioning of meters to meet customers' needs; provide special means for confirming the identity of their officers; provide advice on use of gas appliances and fittings; provide for bills to be sent to a nominated person; and read the meter quarterly if required.

Any work on gas fittings for the purposes of checking safety must be by competent persons, i.e. CORGI registered. Specialist manufacturers can provide controls and adapters for appliances.

Suppliers need to make arrangements for keeping a register of vulnerable customers and for periodically updating this (e.g. via a message on gas bills), including steps to identify special needs (e.g. via a questionnaire).

Customer documentation must explain clearly the full range of services available.

Condition 18: Facilities for Blind and Deaf Persons

The facilities required for this group relate to providing meter readings and charges and dealing with enquiries and complaints. Generally, special facilities for blind or partially sighted customers include talking bills, Braille, large type or cassette. For the deaf, the most common facility is minicom. Bodies such as RNIB and RNID may help in arranging services.

Condition 19: Steps to be Taken Where Charges for Gas are Unpaid

This condition imposes obligations on suppliers to ensure that customers in genuine difficulty paying bills are treated sympathetically. The condition provides that suppliers' arrangements should, so far as is reasonably practical, enable "can't pay" customers to be distinguished from "won't pay" customers.

Customers should be dealt with in a consistent manner, with adequate opportunities given for making contact to discuss arrangements to pay (e.g. telephoning or visiting customers) in addition to sending reminders and disconnection letters.

Condition 20: Pensioners not to have Supply of Gas Cut Off in Winter

This condition imposes a moratorium on disconnection of pensioner households in winter. Normally, such households would be identified via the gas care register.

Condition 21: Record of and report on performance

This condition provides for an annual report on the supplier's performance of the obligations in Standard Conditions 16 to 19, to be given to the DGGs and the GCC. The report also has to be published, to be in a standard format designated by the DGGs.

Appendix 3 Data Provided in Suppliers' Statements of Compliance

Information required to be published (and provided to the DGGS and GCC) for monitoring of compliance with social obligations is set out below.

Condition 16 - Advice on the Efficient Use of Gas

1. Number of customers requesting advice.
2. Number of customers advised.
3. Advice most commonly sought:-
 - insulation
 - selection of new appliances
 - use of appliances
 - referral to other organisations
 - other
4. Has action been taken to analyse if advice was acted upon?
5. Has action been taken to monitor quality of advice given?

Condition 17 - Services for Pensioners, Disabled and Chronically Sick

6. Number of customers on gas care register.
7. Number of free safety checks given.
8. Number of customers requesting special controls or adaptors.
9. Number of customers to whom special controls or adaptors were provided
10. Number of customers requesting repositioning of meter
11. Number of meters repositioned
12. Number of customers requesting special password
13. Number of customers given special password
14. Number of customers given advice on use of gas, appliances and fittings
15. Number of customers nominating other persons to receive bills
16. Number of customers requiring quarterly meter readings
17. Was the list verified by Transco?
18. Were all customers notified of the list and of procedures for inclusion on it.

Condition 18 – Facilities for Blind and Deaf Persons

19. Number of blind or partially sighted customers assisted in relation to meter readings, charges and enquiries
20. Number of customers who are deaf or partial hearing assisted in relation to enquiries, complaints, bills and services

Condition 19 – Steps to be Taken Where Charges for Gas are Unpaid

21. Number of customers provided with facilities for payment by deduction from social security benefits
22. Number of customers paying by instalments
23. Number of pre-payment meters instalments
24. Number of customers disconnected, total of which:
 - debt, no contact
 - debt with contact
 - gas supply no longer required
 - metering tampering
 - other reasons
25. Number of customers reconnected
26. Average length of time over which arrears are recovered (days)

Condition 20 Pensioners No Disconnection During Winter

27. Number of cases where disconnection moratorium applied

Appendix 4 Licensed Domestic Gas Suppliers

Table 12 - Domestic Gas Suppliers by Area of Supply¹

| Supplier | Phase | Phase | Phase 3 Tranches... | | | | | |
|--|---------------------|-------|---------------------|---|---|---|---|---|
| | 1 | 2 | 1 | 2 | 3 | 4 | 5 | 6 |
| Amerada Hess Gas (Domestic) Ltd | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Associated Gas Supplies Ltd (AGAS) | See note 2 to table | | | | | | | |
| Beacon Gas | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| British Gas Trading ³ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Calortex | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Cambridge Gas Company Ltd ⁴ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✓ | ✗ |
| CPL British Fuels | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Crown Energy ⁵ | ✗ | ✗ | ✗ | ✓ | ✓ | ✗ | ✗ | ✗ |
| Eastern Natural Gas Ltd | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Gas West Ltd ⁶ | ✓ | ✓ | ✗ | ✗ | ✗ | ✓ | ✗ | ✗ |
| London Electricity | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Midlands Gas Ltd | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Midland Shires Farmers Ltd ⁷ | ✗ | ✗ | ✗ | ✗ | ✗ | ✓ | ✗ | ✗ |
| Northern Electric Ltd | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Northern Energy (Energy Supplies UK Ltd) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| North Wales Gas | | | | | | | | |
| Norweb Gas (trading as Energi) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Scottish Power | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Southern Electric Gas | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Sterling Gas (East Midlands Electricity plc) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| SWALEC Gas ⁸ | ✗ | ✗ | ✗ | ✗ | ✗ | ✓ | ✗ | ✗ |
| SWEB (Western Gas) | ✓ | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ |
| The Gas Supply Company Ltd | See note 2 to table | | | | | | | |
| York Gas | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Yorkshire Electricity | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

Notes:

1. Domestic Gas Suppliers as at the end of August 1998.

2. Both AGAS and The Gas Supply Company Ltd supply areas where they are the Public Gas Transporter. A full list of these areas is available from OFGAS on request.
3. Restricted in part of the Dunfermline area.
4. Cambridge Gas is available in the following postcode areas:- CB1-11, IP26-29, SG8, SG18-19, MK40-45, NN8-10, CM22-24 and all PE except PE20-25.
5. Crown Energy is only available in Lancashire, Yorkshire & Cheshire.
6. Gas West Ltd is available in Phase 1 and the former county of Avon, Wiltshire and Dorset.
7. Midland Shires Farmers is available in the following postcode areas - AL, BS, CF, CV, DE, DY, GL, GU, HP, HR, KT, LD, LE, LU, MK, NN, NP, OX, RG, SA, SM, ST, SY, TF, WR, WS and WV
8. SWALEC is only available in Wales

Appendix 5 Joint Policy Statement from Offer and Ofgas on Dual Fuel Issues

No PES should deliver or accrue dual fuel benefits to customers until the relevant part of its restricted area is open to competition in electricity supply. Dual fuel benefits include cost savings in the form of reduced tariffs or rebates, joint meter reading, combined bills and combined payment arrangements.

If dual fuel contracts are signed with a PES in its restricted area before the relevant part of that area is open to competition in electricity supply, then the customer should not be required to give 28 days notice of termination before switching to another electricity supplier. A corresponding requirement should apply to any dual fuel contracts signed with BGT before its gas supply monopoly in the relevant area was ended.

No PES should undertake joint reading of gas and electricity meters unless that service is offered on a non-discriminatory basis to all suppliers, until such time as that PES's monopoly in electricity meter reading is removed.

If these requirements are not complied with, then if necessary Offer and Ofgas will consider making a reference to the MMC under the Competition Act 1980 or the Fair Trading Act 1973.