

CONSULTATION ON PROPOSED ENFORCEMENT ACTIONS AGAINST NORTHERN ELECTRIC PLC AND NORTHERN ELECTRIC & GAS LIMITED

1. This paper sets out the background to the actions being taken by the Director General of Electricity Supply in relation to Northern Electric plc under the Electricity Act 1989 and the Director General of Gas Supply in relation to Northern Electric & Gas Limited under the Gas Act 1986; the actions being taken; the reasons for those actions and the steps that Northern Electric plc and Northern Electric & Gas Limited will need to take to remedy the situation. The paper invites comments on these actions. Throughout the document, where it is appropriate to do so the two companies will be referred to as "the group".

Northern Electric plc and Northern Electric & Gas Limited

1. Since 1990, as the successor company to the North Eastern Electricity Board, Northern Electric plc (Northern) has held a public electricity supply licence to distribute and supply electricity in the North East of England. It also holds second tier electricity supply licences. The company is a wholly owned subsidiary of MidAmerican Energy Holdings Company of the United States. Between March 1996 and 1 April 1998 Northern Electric plc also held a domestic gas supply licence. On 1 April 1998 the gas supply licence was assigned to Northern Electric & Gas Limited (NE&G), which is a wholly owned subsidiary of Northern Electric plc. The group is an active electricity and gas supplier. As of 30 July 1999, Northern Electric plc supplied approximately 1.36 million domestic and small business electricity customers in the North East, and 81,000 electricity customers in the below 100kWh market in other areas of Great Britain. On that date Northern Electric & Gas supplied 200,000 domestic gas customers in the North East, and 340,000 domestic gas customers in other areas of Great Britain.
1. NE&G first entered the gas market in April 1996 and Northern entered the designated electricity market in November 1998. In common with many other suppliers, the group has sought to attract new gas and electricity customers. In addition to "affinity" deals with other organisations, such as Saga, The Daily Telegraph, and a number of local councils the group has employed a wide range of marketing techniques including doorstep selling.
1. To facilitate its competitive position, the group has undertaken wideranging changes to its customer services, IT systems, processes and procedures. For example, in July 1998, it introduced a computerised integrated billing system to replace its existing billing system. The new system was designed to undertake the billing of both electricity and gas customers and, in particular, to accommodate the introduction of Dual Fuel billing. This development lay alongside but was additional to the requirements set down for the introduction of the competitive market in electricity. The group intended that new Dual Fuel customers would be entered onto this system as they

transferred to it and that existing electricity customers would be migrated en masse onto it at a later date or individually at the time of a change in circumstances, such as when they moved home. Persistent problems relating to the introduction of this billing system are outlined below.

1. The group's supply business currently transfers to its customer portfolios approximately 11,000 gas customers and 8,300 electricity customers a month. In addition, it is having to process each month approximately 12,700 electricity customers and 12,500 gas customers who are transferring away from it to other suppliers.
1. The events that are the subject of the proposed enforcement actions relate in part to the activities of Northern and NE&G in selling, as a single package, both gas and electricity. Notwithstanding the increasing level of convergence between those two fuels, the regulatory regime that applies in respect of the activities of NE&G in so far as gas is concerned is that set out in the Gas Act 1986; and in respect of the activities of Northern in so far as electricity is concerned is that contained in the Electricity Act 1989. In considering the extent to which the Director is required, under the Gas Act, to take action in respect of the activities of NE&G in relation to gas, the Director is bound by his duties under Section 4 and 4A of the Gas Act and has taken account only of those matters which it is appropriate and proper for him to take account of in considering action under that Act. Likewise, in considering the extent to which the Director is required, under the Electricity Act, to take action in respect of the activities of Northern in relation to electricity concerned the Director is bound by his duties under Section 3 of the Electricity Act and has taken account only of those matters which it is appropriate and proper for him to take account of in considering action under that Act.
1. Both OFFER and Ofgas, the predecessor organisations to the organisation which is now known as the Office of Gas and Electricity Markets (Ofgem), have been concerned for some time about various aspects of the group's performance in respect of services to existing and prospective domestic gas and electricity customers. The Offices have held regular meetings with the group's management with a view to identifying issues of particular concern and agreeing mitigating actions. The group's management has, in general, responded positively and constructively to both OFFER's and Ofgas' enquiries.

Electricity market issues

1. In this section of the paper, the Director General of Electricity Supply is referred to as "the Director".

Complaints

1. Throughout 1998 and 1999, OFFER has monitored Northern's performance closely in relation to its existing electricity customers and its marketing

activities to potential electricity customers. Between 1990 and the beginning of 1998, complaints to OFFER about Northern's performance in electricity averaged approximately 415 a year. In 1998 this figure rose to 876. During the 12 months ending June 1999, the Office received 1952 complaints against the company in its capacity as a first tier (in area supplier).

1. Between January and July 1999 OFFER received more complaints about Northern's billing activities than any other supplier. At 1299, billing complaints against Northern were more than four times the number of complaints against the next worst supplier in this category. This figure is already 116% higher than the total number for the whole of 1998.

Problems in electricity supply

1. Northern entered the competitive electricity supply market on 4 November 1998. Since market opening it has provided the weekly monitoring data which OFFER requires from all suppliers. This data initially indicated that Northern was successfully operating the customer transfer process and providing registration and other services effectively to other suppliers.
1. OFFER became concerned at the increasing level of complaints that it was receiving in relation to Northern. On 13 October 1998 OFFER's Regional Manager for the North East met Greg Abel, then President and Chief Operating Officer of Northern, in Newcastle to express concern about an increase in the level of complaints to the Office from dissatisfied electricity customers, with a view to understanding the reasons for this and the mitigating action which Northern was taking.
1. Two particular issues soon emerged. First, Northern was using a very high level of deemed meter reads on change of supplier. Second, it was experiencing problems in providing accurate data into settlement. Both issues were reviewed when OFFER staff visited Northern on 10 December 1998. OFFER was assured that plans were in place to deal with these issues in a timely way (on the settlement issue this was subsequently confirmed by the Pool).
1. On 21 January 1999, OFFER's Regional Office and the Electricity Consumers' Committee raised with the company's Director of Customer Services (Adrian Hinchcliffe), the fact that there were continuing problems. Subsequently in February 1999, OFFER expressed further concerns about Northern's poor performance in relation to its arrangements for transferring electricity customers and its continuing poor performance in billing.

Billing of electricity customers

1. By February 1999 there had been some slippage against Northern's plans to resolve its problems. Almost 100% of non half-hourly meters continued to be settled on default estimates (giving rise to inaccurate settlement bills for suppliers in Northern's area) and a software fix introduced in January had to be withdrawn because it created further problems. In addition, software

problems elsewhere caused delays in registering and billing customers and consequent backlogs in processing. As a result the number of complaints to OFFER increased significantly (to over 200 in January 1999, compared with just over 20 in January 1998). Almost half of the complaints relate to delays in billing customers.

1. OFFER discussed these issues with Northern on 5 February 1999. Whilst Northern explained that it was taking a number of actions to resolve these issues, OFFER was not convinced that these were sufficient to resolve matters in a timely and robust way and indicated to the company that further investigation would follow.
1. OFFER met representatives of Northern on 23 July to discuss progress with resolving difficulties in marketing to potential electricity customers and in billing its existing customers.
1. Subsequent to that meeting, on 30 July 1999, Northern submitted to OFFER a report setting out the improvements in Northern's performance. The report stated that :

"problems with the billing system (both code and data) are preventing the production of cyclic bills on the due date. As a result customers are concerned that they are unaware of their present usage and therefore contact us to request a bill. In order to assist customers to do this an Interactive Voice Response (IVR) facility has recently been introduced in the Call Centre." The report also stated that :

"problems with the Billing System are preventing successful completion of some non-cyclic transactions e.g. customer movement. As a result final accounts for outgoing customers are not produced and incoming customers billing records are not established quickly enough. These customers also do not receive cyclical accounts as a result."

1. In relation to IT the report stated that:

"large basic changes in the areas of:-

- (a) interfaces between the central customer database and the billing system; and
- (b) amended and final account validation and functionality are being worked on and these should be delivered in February 2000 and will provide enhanced levels of error information, validation and account functionality to on-line users."

1. Throughout discussions with OFFER, Northern has accepted that it has experienced significant problems in maintaining satisfactory customer services to some of its electricity customers and that in a number of material respects its systems, processes and procedures have resulted in levels of

service that have fallen short of industry good practice. It has continually promised improvements.

1. The Director considers that these are related and significant shortcomings in the service offered by Northern to both its existing and prospective customers. The problems identified are having a material and adverse impact on many of Northern's customers and are also causing unnecessary costs and inconvenience to its competitors. The extent, longevity and relative significance of these problems, is illustrated by the number and make-up of customer complaints received by OFFER and the Electricity Consumers' Committees.
1. Whilst improvements have occurred in some areas, the Director is concerned that these have not been achieved as rapidly as we had been told they would be, that in a number of material respects, Northern's performance remains significantly below the level which OFFER would regard as acceptable and that its present and prospective practices and procedures are in breach, or likely to result in breach, of Northern's statutory obligations in relation to electricity supply.
1. In the light of present and prospective performance, in the Director's view, Northern has not set out a convincing programme of action to rectify the problems it is experiencing with its Dual Fuel billing systems. The Director therefore considers that formal action under the Electricity Act 1989 is requisite and necessary to protect customer's interests. Accordingly he is giving Notice to Northern Electric plc of his proposal to make a final Order under section 9 of the Electricity Act 1989 with a view to remedy the breaches which have been identified.

Proposed action under the Electricity Act 1989

1. Northern has reported that it has experienced a number of problems with the Dual Fuel billing systems which it has put in place. Levels of customer complaints reveal that this is causing considerable difficulties for its customers who do not receive regular bills in a timely fashion. In the Director's view this puts the company in a position where it is, or is likely to be, in breach of the requirements under s 9 of the Electricity Act 1989, for a public electricity supplier to develop and maintain an efficient, co-ordinated and economical system of electricity supply. In the Director's view therefore it is necessary to ensure that the company will take the appropriate action in a timely and efficient manner to remedy such a breach.
1. In order to secure compliance the Director proposes to order Northern to undertake a number of actions which are intended to secure compliance with the licence condition. These are set out in the attached draft Order.
1. In general terms it is the Director's view that Northern should take all steps necessary to enable it to bill its customers accurately and in a timely manner. It is not clear that to date Northern has done so. How Northern achieves the position of being able to bill customers is a matter for the company and not

one on which the Director intends to be prescriptive as to the approach to be taken.

1. However, it will be important for the Office to understand the progress which Northern is making in achieving an acceptable position and it is the Director's intention therefore that immediately upon the making of the Order, the company will make senior level, weekly reports so that the Director may understand progress made by Northern in resolving outstanding issues that have been identified. Such reports will continue to be made until Northern's performance in billing its customers has reached an acceptable standard.
1. Until that time, the Director is concerned to ensure that Northern should not compound a breach of section 9 of the Electricity Act 1989 by continuing to migrate customers from the old billing system onto the faulty Dual Fuel billing system. Accordingly the Director proposes to order Northern to refrain from migrating any of its existing authorised area electricity customers onto the faulty billing system until its performance in billing its customers has reached an acceptable standard. This action will ensure that any resources currently engaged in transferring or migrating customers onto the faulty billing system are released to undertake manual intervention required to enable Northern to bill customers properly.
1. The Notice of the Director's proposal to issue an Order in relation to the breaches of the Electricity Act 1989 is set out in Schedule 1 to this paper.

Gas Market Issues

1. In this section of the paper, the Director General of Gas Supply is referred to as "the Director".

Complaints about billing

1. Complaints received by Ofgas and the GCC together about NE&G billing processes in June 1998 totalled 29. In the following months, the number of these complaints rose steadily until in January 1999 Ofgas and the GCC together received 64 such complaints. The level of these complaints subsequently continued to rise steadily until in June 1999 they reached 135 for the month. In the last 6 months of 1998 such complaints averaged around 50 per month, and in the first 6 months of 1999 complaints are averaging around 120 per month.

Billing problems

1. As part of a formal information request on 17 February 1999, Ofgas asked NE&G to submit the number of gas related complaints that NE&G received from its customers broken down on the following basis:
 - delay in transfer

- sales problems
 - cancellations not effected
 - erroneous transfers
 - inaccurate final account from previous supplier
 - other
1. Between November 1998 and July 1999 Ofgas observed that the two major causes of complaints about NE&G, namely sales problems and erroneous transfers, have fallen substantially in absolute terms. However, it became apparent that the category "other" was increasing over this period. Following further investigation it became apparent that these related primarily to difficulties with billing its gas customers.
 1. Ofgas met representatives of NE&G on 23 July to discuss progress with resolving difficulties in marketing to potential gas customers and in transferring gas customers to its customer portfolio.
 1. Subsequent to that meeting, on 30 July 1999, NE&G submitted to Ofgas a report setting out the improvements in NE&G's performance. The report stated that :

"problems with the billing system (both code and data) are preventing the production of cyclic bills on the due date. As a result customers are concerned that they are unaware of their present usage and therefore contact us to request a bill. In order to assist customers to do this an Interactive Voice Response (IVR) facility has recently been introduced in the Call Centre." The report also stated that :

"problems with the Billing System are preventing successful completion of some non-cyclic transactions e.g. customer movement. As a result final accounts for outgoing customers are not produced and incoming customers billing records are not established quickly enough. These customers also do not receive cyclical accounts as a result."

1. In relation to IT the report also stated that:

"large basic changes in the areas of:-

- (a) interfaces between the central customer database and the billing system; and
 - (b) amended and final account validation and functionality
- are being worked on and these should be delivered in February 2000 and will provide enhanced levels of error information, validation and account functionality to on-line users."

1. Subsequently NE&G submitted to Ofgas on 16 August a report in which it makes clear that a number of secondary issues had arisen and that until

September 1999 gas accounts issued from the system have not been able to use Transco actual readings. This information was made available to Ofgas for the purpose of facilitating the carrying out by the Director of his functions under the Gas Act.

1. The Director considers that these are significant shortcomings in the service offered by NE&G to both its existing and prospective customers. The problems identified are having a material and adverse impact on many of NE&G's customers and are also causing unnecessary costs and inconvenience to its competitors. The extent, longevity and relative significance of these problems, is illustrated by the number and make-up of customer complaints received by Ofgas and the GCC.
1. Whilst improvements have occurred in some areas, then Office is concerned that these have not been achieved as rapidly as we had been told they would be, that in a number of material respects, NE&G's performance remains significantly below the level which the Office would regard as acceptable and that its present and prospective practices and procedures are in breach, or likely to result in breach, of NE&G's statutory obligations in relation to gas supply.
1. In the light of present and prospective performance, in the Director's view, NE&G has not set out a convincing programme of action to rectify the problems it is experiencing with its Dual Fuel billing systems. The Director therefore considers that formal action under the Gas Act 1986 is requisite and necessary to protect customers' interests. Accordingly he is giving Notice to Northern Electric and Gas Ltd of his proposal to make a final Order under section 28(1) of the Electricity Act 1989 with a view to remedy the breaches which have been identified.

Proposed action under the Gas Act 1986

1. NE&G has reported that it has experienced a number of problems with the Dual Fuel billing systems which it has put in place. Levels of customer complaints reveal that this is causing considerable difficulties for its customers who do not receive regular bills in a timely fashion. In the Director's view this puts the company in a position where it is, or is likely to be, in breach of the requirements of the standard conditions of its gas suppliers' licence – and in particular, standard condition 10. In the Director's view therefore it is necessary to ensure that the company will take the appropriate action in a timely and efficient manner to remedy such a breach.

1. The Director proposes to order NE&G to undertake a number of actions which are intended to secure compliance with standard condition 10. These are set out in the attached draft Order.
1. In general terms it is the Director's view that NE&G should take all steps necessary to enable it to bill its customers accurately and in a timely manner. It is not clear that to date NE&G has done so. How NE&G achieves the position of being able to bill customers is a matter for the company and not one on which the Director intends to be prescriptive as to the approach to be taken.
1. It is the Director's intention that immediately upon the making of the Order, the company will make senior level, weekly reports so that the Director may understand progress made by NE&G in resolving outstanding issues that have been identified. Such reports will continue to be made until NE&G's performance in billing its customers has reached an acceptable standard.
1. Until that time, the Director is concerned to ensure that Northern should not compound a breach of standard condition 10 by continuing to transfer customers onto the Dual Fuel Integrated billing system. The Director considers it to be appropriate, until such time as NE&G is able to perform contractual obligations that it is obliged by its licence to include in its contract with customers that NE&G should severely constrain the number of domestic customers which it takes on. However, NE&G has an obligation under its licence in certain circumstances to provide a supply, and the Director cannot lawfully prohibit absolutely the taking on of new customers. The Order therefore requires NE&G to restrict the number of potential customers it transfers onto any of its billing systems to those that it is required by standard condition 2 of its licence to transfer, until it has in place systems and procedures that will allow it to bill such customers properly.
1. It could be argued that the terms of standard condition 2 would require NE&G to transfer not only those customers who proactively approached the company with a request for supply but also those customers who requested a supply in response to NE&G's marketing activities, particularly via doorstep sales and telesales. To do so would require NE&G to transfer such customers which would have the effect of compounding the breach of standard condition 10. To avoid this conflict the Director intends to prohibit the company from actively marketing to customers until it is capable of billing them properly.
1. The intended effect of these measures is that NE&G will only be transferring those gas customers who proactively request a supply, rather than doing so in response to any marketing activity undertaken by NE&G or its agents.
1. Furthermore, at present the problems with the Dual Fuel billing systems mean that in many cases, for customers to be billed it is necessary for an experienced operator to undertake a degree of manual intervention of the

customer's account. We understand that this is not a simple task which can be undertaken by newly recruited staff but that it requires staff who have considerable experience of NE&G's systems and procedures. Processing the transfer of new customers onto the dual fuel billing system requires similarly qualified staff. We fully appreciate that such resources are finite. In the Director's view the company should devote all available resources to maximise its ability manually to correct customer accounts and issue bills to customers.

1. The Notice of the Director's proposal to issue an Order in relation to the breaches of standard condition 10 of the suppliers' licence is set out in Schedule 2 to this paper.

Overview of regulatory concerns

1. The steps which the Director General of Gas Supply and the Director General of Electricity Supply now proposes to take will address the area of greatest concern about Northern's and NE&G's failure to bill customer efficiently. In OFFER's and Ofgas' view there is no reason why any customer should not receive a bill within a reasonable period after it is due. If the group's systems cannot generate a bill then it should make whatever arrangements are necessary to generate them manually. However, in making resources available to bill customers manually it will be vital to ensure that the group does not divert resources which should be undertaking equally important activities. The Offices will therefore monitor carefully the group's activities in other areas with a view to identifying any other potential breaches of the Acts or licences and taking action in respect of any which may arise. We will expect that the group will want to treat leniently any electricity and gas customers who fall into debt or extend existing debt because of its failure to bill them in a timely fashion. We will expect the group to make appropriate arrangements such as extended payment plans to enable such customers to pay off debts accrued in this way. These are set out in condition 18 of Northern's PES licence under its Code of practice payment of bills and guidance for dealing with customers in difficulty, and in standard condition 19 of the Gas Suppliers licence.
1. Where the group's inability to bill a customer correctly results in the customer falling into debt, then it may not be appropriate for either company to exercise its right under either its gas or electricity licence to object to the transfer of the customer to another gas or electricity supplier.

Schedule 1

The Electricity Act 1989

Section 26(1)

Notice

To: **Northern Electric plc** (Northern)

having its registered office at Carlisle House, Market Street, Newcastle upon Tyne NE1 6NE, the holder of a licence (the Licence) granted under section 6(1)(c) of the Electricity Act 1989 (the Act).

The Director General of Electricity Supply (the Director) hereby gives notice as follows:

The Director proposes to make an order under section 25(1) of the Act in the terms set out in Annex 1 to this Notice (the Proposed Order).

The effect of the Proposed Order would be to require Northern to take steps to remedy its breach and to prevent likely future breaches of section 9(1) of the Act. Until it has done so, the Proposed order will require Northern to refrain from transferring onto any inadequate computerised billing system the records of any of its customers which are not at the date of the final Order already retained on that system. Compliance with a final Order, if made, would be enforceable by civil proceedings by the Director. Furthermore, the obligation to comply with a final Order is an actionable duty owed to any person who may be affected by a contravention of it.

The relevant requirement for the purpose of this Notice and the Proposed Order is section 9(1) of the Act.

The acts or omissions which in the opinion of the Director constitute contraventions of the relevant requirement, as more fully set out in Annex 2 to this Notice, are the failure and likely continuing failure of Northern to issue to certain of its customers quarterly or monthly bills. In consequence, Northern is in breach and likely to continue to be in breach of its obligation under section 9(1) of the Act.

The other matters which, in the opinion of the Director, justify the making of the Proposed Order are those set out in summary in Annex 3 to this notice.

Representations in respect of or objections to the making of the Proposed Order may be made by 29 September 1999 and should be addressed to: A.J. Boorman, The Office of Gas and Electricity Markets, Stockley House, 130 Wilton Road, London SW1V 1LQ.

**Authorised in that behalf by the
Director General of Electricity Supply
31 August 1999**

Annex 1

The Electricity Act 1989

Section 25(1)

Proposed Order

To: Northern Electric plc (Northern) having its registered office at Carliol House, Market Street, Newcastle Upon Tyne NE1 6NE, the holder of a licence (the Licence) granted under section 6(1)(c) of the Electricity Act 1989 (the Act).

Whereas the Director General of Electricity Supply (the Director) is satisfied that Northern is contravening and is likely to contravene section 9(1) of the Act by failing to issue to certain of its customers quarterly or monthly bills, the consequence of which is that Northern is in breach of and likely to continue to be in breach of its obligations under that section.

Now therefore the Director, pursuant to his duties under sections 3 and 25(1) of the Act, hereby orders, for the purpose of securing compliance with section 9(1) of the Act, as follows:

Remedial action

1. Northern shall take all necessary steps to issue quarterly and monthly bills (as appropriate) for its customers.

Actions pending compliance with section 9(1)

2. Until such time as Northern produces to the Director a report by a suitably qualified person not connected to Northern, and approved by the Director for this purpose, in which that person states that he is of the view that Northern may reasonably be regarded as capable of issuing monthly or quarterly bills for customers (as appropriate) Northern shall:
 - (a) submit to the Director, once each week, a written report signed by the President and Chief Operating Officer of Northern as to its progress towards remedying the failure in the information technology and other systems and procedures used or

intended for use in the production of bills in relation to the supply of electricity to premises; and

- (b) not transfer on to any computerised billing system which is incapable of producing quarterly or monthly bills, for the purpose of using that system to produce bills for the supply of electricity to premises, the billing details or records of any of its customers which are not, at the date of this Order, already retained on that system.

Definition

- 3. For the purpose of this Order, 'customers' means electricity supply customers of Northern at premises within its authorised area.

This order shall take effect on the date shown below.

Authorised in that behalf by the
Director General of Electricity Supply

date 1999

Annex 2

Acts and omissions constituting contraventions of section 9(1) of the Act

1. Section 9(1) of the Act requires that:

"It shall be the duty of a public electricity supplier to develop and maintain an efficient, co-ordinated and economical system of electricity supply."

2. In a paper entitled Improvement in Northern Electric Performance - a note for the Office of Gas & Electricity Markets - prepared by Northern and dated 30 July 1999, Northern reported that:

Cyclic bill not received

Problems with the billing system (both code and data) are preventing the production of cyclic bills on the due date. As a result customers are concerned that they are unaware of their present usage and therefore contact us to request a bill. In order to assist customers to do this an Interactive Voice Response (IVR) facility has recently been introduced in the Call Centre.

Non Cyclic bill not received

Problems with the Billing System are preventing successful completion of some non-cyclic transactions e.g. customer movement. As a result final accounts for outgoing customers are not produced and incoming customers' billing records are not established quickly enough. These customers also do not receive cyclical accounts as a result.

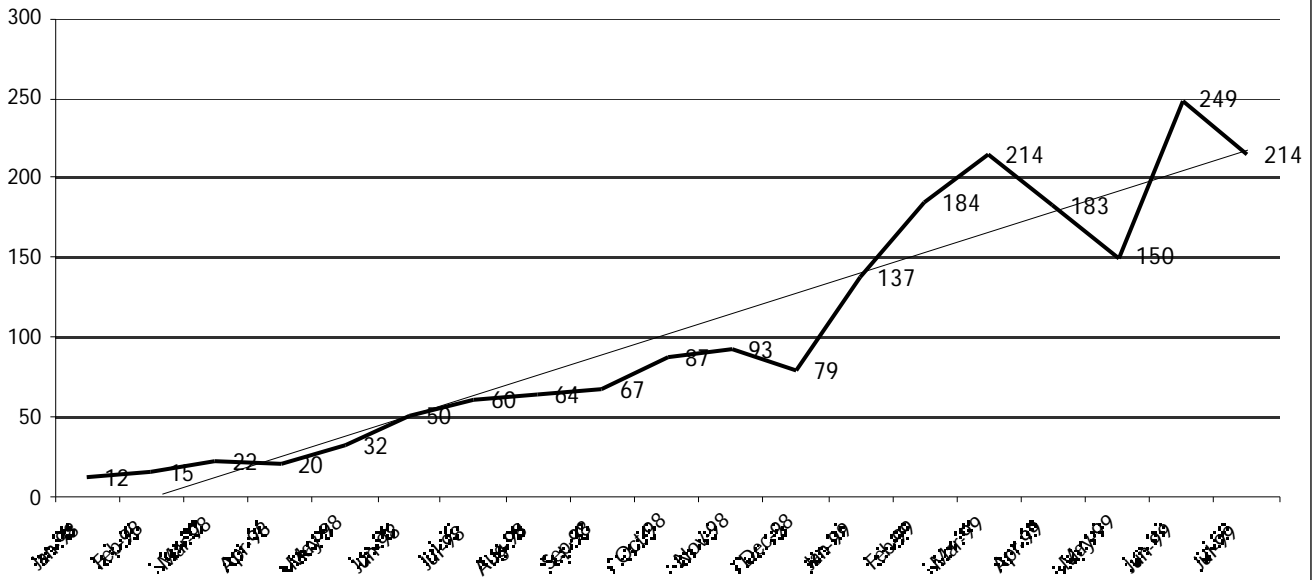
3. The failure of Northern's systems are such that it is incapable of rendering to customers whose records are retained on its new computerised billing systems either quarterly or monthly bills.

Annex 3

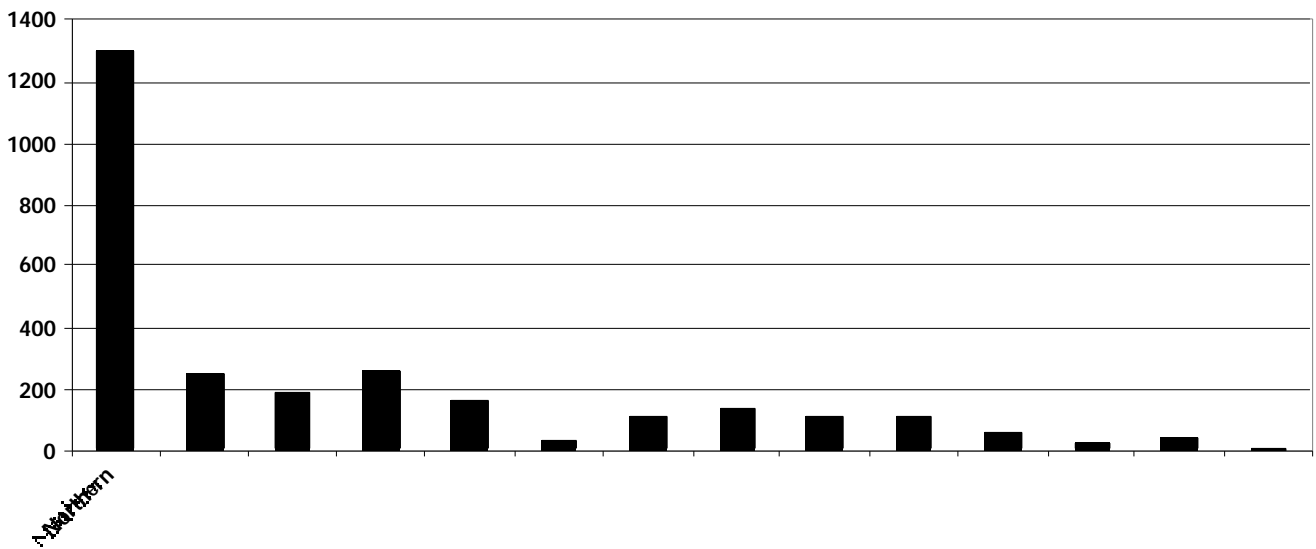
Other matters which justify the making of the order

OFFER has received very high levels of complaints about the activities of NE&G in the electricity market. In particular complaints to OFFER about NE&G have increased very significantly since the introduction of its new computerised system. The majority of the complaints in relation to electricity relate to billing difficulties. Problems include failure / inability to issue bills on request, direct debit mandates not being processed, meter readings submitted either by customers or taken by the company's own metering staff being lost and changes of tenancy not being correctly recorded leading to errors in bills. Customers have been particularly upset that frequent contact with the company prior to approaching OFFER has failed to resolve their complaints. Since February 1999, when OFFER started receiving weekly statistics from the company, there has been some reduction in the backlogs of work to be undertaken. However, at 26 July 1999, the company still held 2136 unbilled final accounts which it was unable to process and which were over 6 months old, along with 4533 unprocessed customer/meter changes which were over 3 months old.

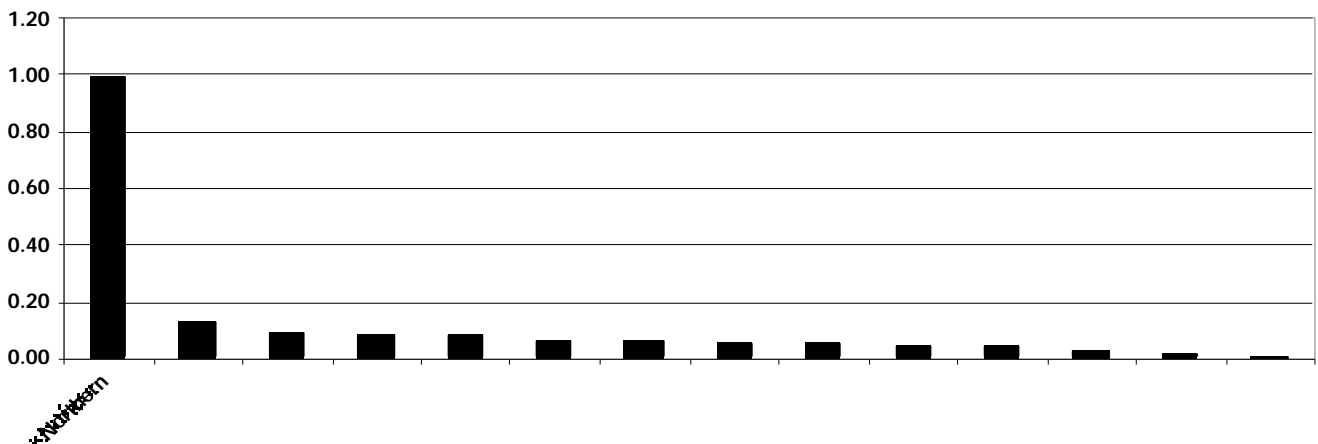
Northern Electric plc billing complaints - electricity
(within authorised area Jan 98 - July 99)



Billing complaints to OFFER in authorised area - Northern by comparison with all other PES'
Jan - July 99



Billing complaints to OFFER in authorised area - Northern by comparison with all other PES'
Jan - July 99
Per 1000 customers supplied



The Gas Act 1986

Section 29(1)

Notice

To: Northern Electric & Gas Limited (NE&G)
having its registered office at Carlhol House, Market Street, Newcastle upon Tyne NE1 6NE, the holder by assignment of a licence (the Licence) treated as granted under sections 7A(1)(a) and (b) of the Gas Act 1986 (The Act)

The Director General of Gas Supply (the Director) hereby gives notice as follows:

The Director proposes to make an Order under section 28(1) of the Act in the terms set out in Annex 1 to this Notice (the Proposed Order).

The effect of the Proposed Order would be to require NE&G to take steps to remedy its breach and to prevent likely future breaches of Standard Condition 10 of the Licence. Until it has done so, the Proposed Order will require NE&G not to request any relevant shipper to confirm for transfer meter reference points in respect of domestic customers using gas for domestic purposes other than in respect of domestic customers or potential customers to whom NE&G is obliged to supply gas and to desist from actively inviting domestic customers and potential domestic customers to enter into contracts with it for the supply of gas through pipes. Compliance with a final Order, if made, would be enforceable by civil proceedings by the Director General of Gas Supply. Furthermore, the obligation to comply with a final Order is an actionable duty owed to any person who may be affected by a contravention of it.

The relevant condition for the purpose of this Notice and the Proposed Order is Standard Condition 10 of the Licence.

The acts or omissions which in the opinion of the Director constitute contraventions of the relevant condition are the failure and likely continuing failure of NE&G to afford to certain of its domestic customers the ability to settle quarterly or monthly bills by failing to issue such bills. In consequence, NE&G is in breach and likely to continue to be in breach of its obligations under contractual terms required by Standard Condition 10.

The other matters which, in the opinion of the Director, justify the making of

the Proposed Order are those matters set out in summary in Annex 2 to this notice.

Representations in respect of or objections to the making of the Proposed Order may be made by 29 September 1999 and should be addressed to:

A.J. Boorman
The Office of Gas and Electricity Markets
Stockley House
130 Wilton Road
London SW1V 1LQ

Authorised in that behalf by the
Director General of Gas Supply

31 August 1999

Annex 1

The Gas Act 1986

Section 28(1)

Proposed Order

To: Northern Electric & Gas Limited (NE&G) having its registered office at Carlhol House, Market Street, Newcastle Upon Tyne NE1 6NE, the holder by assignment of a licence (the Licence) treated as granted under Sections 7A(1)(a) and (b) of the Gas Act 1986 (the Act).

Whereas the Director General of Gas Supply (the Director) is satisfied that NE&G is contravening and is likely to contravene Standard Condition 10 of the Licence, in particular paragraph 2(b), by failing to afford to certain Customers the ability to settle quarterly or monthly bills by failing to issue such bills, the consequence of which is that NE&G is in breach of and likely to continue to be in breach of its obligations under contractual terms required by that condition.

Now therefore the Director, pursuant to his duties under Sections 4 and 28(1) of the Act, hereby orders for the purpose of securing compliance with paragraph 2(b) of the said Standard Condition 10 that NE&G shall -

Remedial action

1. Take all necessary steps to afford customers the ability to settle quarterly and monthly bills, (as appropriate).

Actions pending compliance with Standard Condition 10

2. Until such time as NE&G produces to the Director a report by a suitably qualified person not connected to NE&G and approved by the Director for this purpose, in which that person states that it is of the view that NE&G may reasonably be regarded as capable of issuing monthly or quarterly bills for Customers, as appropriate:

- (a) submit, once a week, a written report to which NE&G has procured the signature of a director of NE&G, to the Director on its progress towards remedying the failure in the information technology and other systems and procedures

used or intended for use in the production of bills by or on behalf of NE&G in relation to the supply of gas through pipes to Customers;

- (b) not request any relevant shipper to confirm for transfer to any Public Gas Transporter in accordance with its Network Codes any meter point reference numbers, excluding meter point reference numbers in respect of domestic customers and potential customers to whom NE&G is required to supply gas pursuant to Standard Condition 2 of its gas suppliers licence.
- (c) not make, or permit its agents to make, any visit to or telephone call to any domestic customers of NE&G or prospective domestic customers for the purpose of offering to supply gas or inviting them to apply for the supply of gas for domestic purposes except where such a telephone call or visit is required to comply with any provision of the licence; and
- (d) not pursue any other marketing activity connected with the supply of gas to actual or prospective customers.

Definitions

3. For the purpose of this Order, “Customers” means domestic customers (as that term is defined in section 15A(10) of the Act) using gas for domestic purposes.

This Order shall take effect on the date shown below.

Authorised in that behalf by the
Director General of Gas Supply
[Date] 1999

Annex 2

Matters which justify the making of the Order

1. Standard Condition 10(2) of the Licence requires that:

“In the case of the supply of gas under a contract, otherwise than through a pre-payment meter, the Licensee shall afford to a domestic customer using gas for domestic purposes a reasonable choice of terms as to the frequency of payments in respect of the supply of gas including, in particular...

(b) one of the following, namely

- (i) the settling quarterly of a quarterly bill for gas supplied;
- (ii) the settling monthly of a monthly bill for gas supplied; and
- (iii) the settling quarterly of such monthly bill

having regard to the special circumstances of a particular case, the Director permits otherwise.

2. In a paper entitled “improvement in Northern Electric performance - a note for the Office of Gas & Electricity Markets” prepared by Northern and dated 30 July 1999, Northern reported that:

“ Cyclic bill not received

Problems with the billing system (both code and data) are preventing the production of cyclic bills on the due date. As a result customers are concerned that they are unaware of their present usage and therefore contact us to request a bill. In order to assist customers to do this an Interactive Voice Response (IVR) facility has recently been introduced in the Call Centre.

· Non Cyclic bill not received

Problems with the Billing System are preventing successful completion of some non-cyclic transactions e.g. customer movement. As a result final accounts for outgoing customers are not produced and incoming customers’ billing records are not established quickly enough. These customers also do not receive cyclical accounts as a result.”

3. The failure of Northern's systems are such that it is incapable of rendering to new customers either quarterly or monthly bills.
4. Since it discovered that its systems were not able to issue quarterly or monthly invoices to new customers and since 30 July 1999 Northern has sought out new domestic customers and has entered into contracts with them.