

October 2000

**Guaranteed and Overall Standards
of Performance**

A consultation paper

Executive summary

The Utilities Act 2000 (the Utilities Act), provides for the Gas and Electricity Markets Authority (the Authority) to set guaranteed and overall standards of performance for electricity distributors, electricity suppliers, gas transporters and gas suppliers.

Guaranteed standards of performance require that companies engaged in these activities meet certain prescribed levels of service in dealing with their customers. If a company fails to meet that standard then a compensation payment is made to the customer.

Overall standards are concerned with areas of service where it is not appropriate to give individual guarantees or to expect compensation payments to be made, but where minimum general service levels are considered necessary.

Guaranteed and overall standards of performance have been in operation in the electricity industry for a number of years. Sections 39 and 40, respectively of the Electricity Act 1989 provided for the Director General of Electricity Supply to set such standards for public electricity suppliers (PESs). Whilst equivalent powers were held by the Director General of Gas Supply to set guaranteed and overall standards of performance in relation to gas supply services, under sections 33A and 33B of the Gas Act 1989, no such standards were set. Instead, a combination of Network Code provisions, licence obligations and voluntary standards of service have been utilised.

The Utilities Act requires the legal separation of the PES businesses into separate electricity distribution and supply businesses, abolishing the concept of a PES. Under the Utilities Act the Authority will be able to set guaranteed and overall standards on both electricity distributors (under sections 39A and 40A of the Electricity Act) and electricity suppliers (under sections 39 and 40 of the Electricity Act). A new power to set standards for gas transporters is introduced, in addition to the existing power to set standards for gas suppliers. In the light of these new powers, and in consideration of the underlying policy of the Utilities Act, to align electricity and gas regulation, where appropriate, Ofgem is undertaking a review of the application of standards of performance.

In considering the future application of standards, it is important to note that standards of performance are only one form of regulating service standards. Regard must also be had to the other ways of incentivising companies and protecting customers. For

example, Ofgem has recently produced final proposals for an information and incentives project for network companies (the Information and Incentives Project: Output measures and monitoring delivery between reviews: final proposals were published in September 2000), which has specified a number of service outputs that these companies will be financially incentivised to deliver. Service standards can also be included in licence obligations or in industry agreements. The Utilities Act provides the Authority with the power to impose financial penalties on licensees for breach of a licence condition, breach of a relevant requirement (overall standards of performance are relevant requirements, under the Utilities Act) and for any failure to meet a guaranteed standard of performance. These penalties can be imposed in addition to any compensation payments made to customers in relation to guaranteed standards. In deciding on the level of payments that companies face for not meeting service standards it is important to bear in mind the interaction between the various regulatory mechanisms. For example, Ofgem has indicated, in its August 2000 consultation on financial penalties, that a decrease in the penalty would be considered to take account of any compensation or other payment made in respect of the same contravention or failure.

This paper considers the future application of standards on the network businesses of electricity distribution and gas transportation, and on those companies active in the competitive electricity and gas supply markets.

It is Ofgem's view that, as electricity distribution and gas transportation businesses are likely to continue to display marked monopoly characteristics in the foreseeable future, customers should be able to expect certain prescribed levels of service. Ofgem proposes that the current regime of guaranteed and overall standards in electricity distribution is extended to gas transportation and seeks views on what the content of those standards should be. The existing electricity and gas standards, which could form the basis of future guaranteed and overall standards for distribution and transportation are explained and views are sought on their appropriateness and completeness.

It is Ofgem's policy to withdraw from direct regulation as competition develops. Following the introduction of competition in the electricity and gas supply markets, Ofgem is seeking views on the future of standards of service in the competitive supply market. This paper examines the current standards in operation in electricity and gas supply and, in the light of the development of the competitive market, identifies four possible options for future supply standards: the setting of regulatory standards for all

suppliers in electricity and gas; the setting of standards only for those suppliers that are dominant in those markets; reliance on the competitive market with no set standards; or requiring suppliers to set their own standards, in codes of practice, under licence obligations. This paper invites views on the appropriateness of each of these four options and invites suggestions from respondents as to the content of any future supply standards.

Standards in relation to metering and connections are considered separately from other supply and network services. Whilst these services are open to competition, that competition has not yet developed to the same extent as it has in supply. Views are sought on the appropriateness of setting guaranteed and overall standards on suppliers in relation to metering and on network operators in relation to connections and on the content of those standards.

Views are invited by Friday 1 December 2000.

Table of contents

| | |
|---|----|
| 1. Introduction..... | 5 |
| 2. Background..... | 9 |
| 3. Electricity – existing standards..... | 13 |
| 4. Gas – existing standards | 25 |
| 5. The future of standards in electricity and gas..... | 35 |
| 6. The future of standards in electricity distribution | 45 |
| 7. The future of standards in gas transportation..... | 52 |
| 8. The future of standards in electricity and gas supply..... | 58 |
| 9. The future of standards in electricity and gas metering..... | 66 |
| 10. The future of standards in network connections | 72 |
| 11. Compensation payments, cost recovery, exemptions and the monitoring of standards..... | 79 |
| 12. Stakeholders | 83 |
| 13. Future Action..... | 85 |

1. Introduction

Purpose of document

- 1.1 The purpose of this document is to seek views on the future application of standards of performance in the electricity and gas industries.
- 1.2 At present the Electricity Act 1989 ('the Electricity Act')¹ provides for the Director General of Electricity Supply (DGES) to set guaranteed and overall standards of performance for public electricity suppliers (the PESs), such standards have been set since 1991 . The Gas Act 1986 ('the Gas Act') contains a similar provision, which empowers the Director General of Gas Supply (DGGS) to set guaranteed and overall standards of performance in relation to gas supply services. This power was inserted into the Gas Act following the Competition and Service (Utilities) Act 1992, but to date these powers have not been exercised. The DGGS has relied on licence conditions, industry agreements and voluntary service undertakings to provide safeguards for consumers on standards of service.
- 1.3 The Utilities Act 2000 ('the Utilities Act') will abolish the concept of a PES and will require the PES distribution and supply businesses to separate. The Utilities Act empowers the Authority to set guaranteed and overall standards for electricity distributors, electricity suppliers, gas transporters and gas suppliers under sections 39, 39A, 40 and 40A of the Electricity Act and sections 33A, 33AA, 33B and 33BA of the Gas Act. Section 40B of the Electricity Act and section 33BAA of the Gas Act, which are inserted by the Utilities Act, require the Authority to consult with the Gas and Electricity Consumer Council (GECC) and other persons, including the relevant licensees, before prescribing or determining standards of performance. Although the Authority has not yet been established, this paper provides an opportunity for Ofgem to seek views on what standards and performance targets should apply to the monopoly businesses of electricity distribution and gas transportation, and on the appropriateness of setting standards of performance in the competitive supply markets. It is likely that the responses made under this consultation will inform the Authority in

¹ As amended by the Competition and Service (Utilities) Act 1992.

preparing its views on whether statutory standards of service should be set, and if so, what those standards should be.

- 1.4 Standards of performance are only one form of regulating service standards. In considering the future application of standards of performance it is important to have regard to the other ways of incentivising licensees and protecting customers. For example, Ofgem has recently produced final proposals for an information and incentives project for network companies² which has specified a number of service outputs that these companies will be financially incentivised to deliver. Service standards can also be included in licence obligations or in industry agreements. The Utilities Act provides the Authority with the power to impose financial penalties on licensees for breach of a licence condition, breach of a relevant requirement (overall standards of performance are relevant requirements, under the Utilities Act) and for any failure to meet a guaranteed standard of performance. These penalties can be imposed in addition to any compensation payments made to customers in relation to guaranteed standards. In deciding on the level of any payments that companies face for not meeting service standards it is important to bear in mind the interaction between the various regulatory mechanisms. For example, Ofgem has indicated in its August 2000 consultation on financial penalties³, that a decrease in the penalty would be considered to take account of any compensation payment made in respect of the same contravention or failure.
- 1.5 In considering the future application of standards of performance in the electricity and gas industries it is necessary to consider recent performance against the current performance targets and also the continued relevance of the standards themselves. It is Ofgem's policy to withdraw from direct regulation as competition develops. Therefore a key factor in considering the future application of standards will be the extent to which competition has developed within the electricity and gas markets. The factors that will need to be considered in determining the future application of standards include: the continuing development of competition in the supply markets; customer perceptions of price and service levels; the operation of price controls in respect

² 'Information and Incentives Project: Output measures and monitoring delivery between reviews: final proposals' September 2000.

³ 'Utilities Act Financial Penalties: a consultation paper' August 2000.

of the performance of network businesses; the anticipated development of competition in metering; and the role of the newly-established GECC in monitoring standards. An important ancillary benefit of guaranteed and overall standards of service, of which it is important to be mindful, is that they encourage the development of associated management and information systems. It is also necessary to consider the application of the existing price controls in the electricity and gas industries, as in setting licensees' allowed revenues within those price controls it is necessary to have regard to licensees' expected performance against any standards of service.

- 1.6 One of the underlying policy objectives of the Utilities Act was the alignment, where possible, of the regulatory arrangements for electricity and gas. Accordingly, this paper considers whether the existing standards of performance arrangements in the electricity and gas industries should be aligned. It may be appropriate to introduce guaranteed and overall standards, based on the electricity model, for gas transporters and suppliers either to supplement or to replace the existing obligations and undertakings. Conversely, it may be appropriate to replace some of the existing statutory electricity standards with more flexible voluntary arrangements based on the gas model.

Structure of document

- 1.7 Chapter 2 sets out the legislative and policy background to the existing standards of performance in the electricity and gas industries. Chapters 3 and 4, respectively, describe the existing standards of performance in the electricity and gas industries. Chapter 5 explains why it is appropriate to review the future of standards in the electricity and gas industries. Chapters 6 to 10 consider the future of standards of performance on electricity distributors, gas transporters and electricity and gas suppliers. Chapter 11 considers the operation of compensation payments, the recovery of costs, exemption from the standards and the monitoring of standards. Chapter 12 outlines those parties which have been identified by Ofgem as having a particular interest in this consultation document and Chapter 13 sets out the action to be taken following the completion of this consultation process.

- 1.8 Please note that, in this consultation paper, all references to 'customers' made in relation to standards of performance should be taken as references to domestic and/or industrial and commercial customers (and should not be taken to include other customers, such as gas shippers and connected generators).

Timetable

- 1.9 The deadline for responses to this consultation is Friday, 1 December 2000. Ofgem intends to issue a further consultation paper on the future application of standards in January 2001, with a view to having any required statutory instruments or statutory directions in place in Spring 2001.

- 1.10 Responses to this consultation should be sent to:

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- 1.11 If you have any questions regarding this document Arthur Cooke on 020-7932-5897, Lisa Vango on 020-7932-5178 or Colin Atkins on 020-7932-1638 will be pleased to assist you.

Confidentiality

- 1.12 In accordance with our normal practice, we intend to make responses to this consultation publicly available, through the Ofgem Library. However, if asked to do so, we shall respect the confidentiality of any response. Respondents wishing their responses to remain confidential should clearly mark the documents to that effect.

2. Background

Electricity

i) legal background

- 2.1 Section 39 of the Electricity Act empowered the DGES (with the consent of the Secretary of State) to make regulations setting guaranteed standards of performance for the PESs. The latest statutory instrument made under this provision is the Electricity (Standards of Performance) (Amendment) Regulations 2000 (SI 2000 No. 840). The Regulations prescribe a range of fixed penalties to be paid to customers for failure to meet the specified standards of performance.
- 2.2 Section 40 of the Electricity Act, as substituted by the Competition and Service (Utilities) Act 1992, empowered the DGES to determine standards of overall performance for the PESs. The Act also introduced a provision requiring each PES to conduct its business in such a way as could reasonably be expected to achieve the overall standards set for it.

ii) policy background

- 2.3 The PESs are subject to standards of performance covering the provision of services to customers. The standards cover a wide range of services relating to supply, distribution and metering services. They were first set, by the DGES, in 1991. There were revisions in 1993, 1995, 1998 and 2000.
- 2.4 In the electricity sector, there are two types of standard:
- ◆ guaranteed standards that set service levels that must be met in each individual case. If the company fails to provide the level of service required, it must make a payment to the affected customer; and
 - ◆ overall standards that cover areas of service where it is not appropriate to give individual guarantees, but where customers in general have a right to expect companies to deliver predetermined, minimum levels of service.

2.5 Performance against the standards is considered in greater detail later in this paper, but it is worth noting here that the PESs have demonstrated a steady improvement in their performance against the standards. In 1991/92, they made over 13,000 payments under the guaranteed standards, compared with 6,685 in 1999/2000. Companies' performance against the overall standards has also shown a substantial improvement, despite the fact that the percentage targets for many of those standards have been significantly tightened.

Gas

i) legal background

2.6 Unlike the Electricity Act, which followed it, the Gas Act made no provision for standards of performance. The Competition and Service (Utilities) Act 1992 subsequently introduced provisions mirroring the electricity arrangements described in paragraphs 2.1 and 2.2 for the gas sector, in the form of:

- ◆ section 33A, empowering the DGGs (with the consent of the Secretary of State) to make regulations setting guaranteed standards of performance for gas suppliers; and
- ◆ section 33B, which empowered the DDGS to determine overall standards of performance for gas suppliers.

ii) policy background

2.7 In the gas sector, although there was no initial provision for statutory standards of performance to be set, Ofgas and British Gas subsequently agreed on a range of standards, through the use of licence conditions and voluntary service undertakings. These have provided some parallel safeguards and are laid out in Chapter 4. Additionally, Transco has obligations under the Network Code, which are also set out in Chapter 4.

2.8 In the event, following the introduction of statutory powers to set standards of performance in gas, the DGGs has made no such regulations or determinations. However, it was felt appropriate to retain the licence requirements that had previously been in place for those elements of the former British Gas business that were subject to monopoly controls (British Gas Trading Ltd and BG Transco

plc), and for the generality of Public Gas Transporters (PGTs), who constitute local monopolies.

2.9 Special Condition 13A of the gas supply licence granted to British Gas Trading Limited (BGT) requires the company to set, and to report on, performance standards, in respect of gas supply services to domestic customers, relating to:

- ◆ the supply of gas;
- ◆ ascertaining the quantity of gas supplied; and
- ◆ recovery of gas charges.

2.10 Standard Condition 19 of the PGT Licence requires licensed gas transporters to establish standards of performance in respect of the connection of premises using less than 2,500 therms per year, and for the prevention of escapes of gas. The obligations of the PGTs under Standard Licence Condition 19 are summarised at paragraph 4.2. In addition to these, BG Transco plc (Transco), who owns and operates the greater part of the gas network, has additional obligations under the Network Code, which are discussed in more details at paragraphs 4.3 and 4.4. Transco also has standards of service relating to gas connections, these standards resulted from an Order made, by the DGGS in February 1999 under section 28(1) of the Gas Act. In addition to the standards outlined above, Transco has introduced a range of voluntary service standards.

The Utilities Act 2000

2.11 The Utilities Act will make some significant changes to the arrangements currently in place in electricity and gas, it will provide, amongst other things, for:

- ◆ the Authority, with the consent of the Secretary of State, to make separate regulations for guaranteed standards of performance for electricity distributors and electricity suppliers in relation to electricity and for gas transporters and gas suppliers in relation to gas;
- ◆ the Authority separately to determine overall standards of performance for electricity distributors and electricity suppliers in relation to electricity and for gas transporters and gas suppliers in relation to gas.

- 2.12 Under the Utilities Act, electricity distribution and supply businesses are required to legally separate, abolishing the concept of a PES. Subsequently, the Authority will be able to prescribe guaranteed and overall standards of performance, relating to supply, for all electricity suppliers, whereas previously standards could only be prescribed for the PES supply businesses.
- 2.13 The Utilities Act will empower the Authority to impose financial penalties on licensees who fail to achieve prescribed guaranteed or overall standards of performance⁴.
- 2.14 New guaranteed standards of performance, or the amendment of existing guaranteed standards, under sections 39 and 39A of the Electricity Act and sections 33A and 33AA of the Gas Act, must be contained in secondary legislation. This secondary legislation must be approved by the Secretary of State. New overall standards of performance, or the amendment of existing overall standards, under sections 40 and 40A of the Electricity Act and sections 33B and 33BA of the Gas Act will be made by the Authority, through a statutory determination.
- 2.15 Prior to the Utilities Act, the DGES, in relation to electricity guaranteed and overall standards, had a duty to publish information on the performance of licensees against the prescribed standards. An equivalent duty was placed on the DGGs in respect of any guaranteed and overall standards for gas (although none were set). Under the Utilities Act, the duty to publish information on performance against guaranteed and overall standards will transfer to the GECC.

⁴ See Ofgem's August 2000 consultation document on the imposition of financial penalties under the Utilities Act.

3. Electricity – existing standards

Guaranteed standards of performance

3.1 The following table summarises the guaranteed standards of performance currently applying in the electricity sector:

| No. | Service | Required Performance | Payment |
|-----|---|---|--|
| 1 | Responding to failure of a supplier's fuse | Within three hours on weekdays between (at least) 7am to 7pm, and within 4 hours at weekends between (at least) 9am to 5pm. | £20 |
| 2 | Restoring supplies after a fault | Must be restored within 18 hours For each further 12 hour period | £50 (domestic) £100 (non-domestic) £25 |
| 3 | Providing supply and meter | Arrange an appointment within 2 working days for domestic customers and 4 working days for non-domestic customers. | £20 - £100 |
| 4 | Estimating charges for connections and meter alterations | Within 5 days for simple jobs, and 15 days for others | £40 |
| 5 | Notice of planned supply interruption | Customers must be given 5 days' notice | £20 (domestic) £40 (non-domestic) |
| 6 | Investigation of voltage complaints | Visit within 7 working days or substantive reply within 5 days. | £20 |
| 7 | Responding to meter problems | Visit within 7 working days or substantive reply within 5 working days. | £20 |
| 8 | Responding to customers' queries about charges, and payment queries | A substantive reply and agreed refunds paid within 5 working days | £20 |
| 9 | Making and keeping appointments | A morning or afternoon appointment, or a timed appointment if requested by the customer | £20 |
| 10 | Notifying customers of payments owed under the standards | Write to the customer and make payment within 10 working days. | £20 |
| 11 | Responding to prepayment meter faults | Within 3 hours on weekdays and 4 hours at weekends. | £20 |

3.2 Like OFFER before it, Ofgem publishes annual reports on services for electricity customers, giving full details of performance against the standards. As explained in paragraph 2.15, under the Utilities Act responsibility for the publication of licensee's performance against guaranteed and overall standards will transfer to the GECC. The following chart summarises statistics of the number of payments made by the PESs, as a whole, against the various guaranteed standards:

| Standard | 1994/95 | 1995/96 | 1996/97 | 1997/98* | 1998/99* | 1999/00 |
|----------|---------|---------|---------|----------|----------|-------------------|
| 1 | 48 | 43 | 17 | 17 | 50 | 67 |
| 2 | 419 | 485 | 167 | 54 | 41 | 2920 ⁵ |
| 3 | 23 | 16 | 6 | 4 | 2 | 2 |
| 4 | 22 | 18 | 32 | 13 | 38 | 9 |
| 5 | 880 | 705 | 363 | 251 | 195 | 183 |
| 6 | 29 | 14 | 2 | 20 | 7 | 4 |
| 7 | 96 | 23 | 12 | 9 | 5 | 23 |
| 8 | 491 | 198 | 165 | 191 | 213 | 1215 ⁶ |
| 9 | 2942 | 2119 | 1340 | 1167 | 1264 | 1210 |
| 10 | 460 | 174 | 147 | 227 | 196 | 982 ⁷ |
| 11 | N/A | N/A | N/A | N/A | 48 | 70 |
| TOTAL | 5410 | 3795 | 2251 | 1953 | 2059 | 6685 |

Overall standards of performance

3.3 The overall standards currently applying in the electricity sector are set out in the following table:

| No. | Service | Required Performance |
|-----|--|---|
| 1a | Minimum percentage of supplies to be connected, following faults, within 3 hours. | Varies, between PESs, between 85% and 95% |
| 1b | All supplies to be reconnected, following faults. | Within 18 hours |
| 2 | All voltage faults to be corrected | Within 6 months |
| 3 | Connecting new tariff premises to the electricity distribution system | 30 working days (Domestic) 40 working days (Other) |
| 4 | All customers who have been disconnected for non-payment to be reconnected before the end of the working day after they have paid the bill, or made arrangements to pay. | |

* Figures for 1997/98 and 1998/99 exclude payments made in consequence of unusually severe winter storms.

⁵ The sharp increase to 2920 reflects 'year 2000' problems with prepayment metering in two PESs.

⁶ The increase to 1215 reflects severe billing problems experienced by one supplier.

⁷ The increase to 982 reflects severe billing problems experienced by one supplier.

| | | |
|---|---|--|
| 5 | Visiting to move the meter, when asked to do so by the customer | 15 working days in all cases |
| 6 | Changing meters when necessary on change of tariff. | Within 10 working days of a domestic customer's request, in all cases. |
| 7 | Obtaining a firm meter reading for all domestic and business customers at least once a year | Once a year. |
| 8 | Responding to all customer letters | Within 10 working days. |

3.4 Differences in the targets set for the various PESs make it more difficult to summarise performance against the overall standards. In general, however, the trend is one of improvement, since the standards were first set⁸.

Distribution and supply

3.5 As discussed at paragraph 2.12, the Utilities Act abolishes the concept of a PES and requires the legal separation of the PES electricity distribution and supply businesses. Therefore, following the Utilities Act, separate standards will be required for distributors and suppliers. In order to facilitate consideration of the appropriateness of continuing any of the standards currently in place, it will be helpful to identify which standards relate to distribution functions and which relate to supply functions.

i) electricity distribution - guaranteed standards

3.6 This table sets out the existing guaranteed standards that are readily allocable to licensed distribution businesses. To avoid confusion, the existing numbering has been preserved. GS 9 and 10 (making and keeping appointments, and notifying customers when payments are due under the standards) could be seen as equally applicable to distributors and suppliers.

⁸ Information on individual PES' performance against overall standards was also included in the OFFER annual reports on standards of service for customers which are referred to in paragraph 3.2.

| No. | Service | Required Performance | Payment |
|-----|--|---|--|
| 1 | Responding to failure of a supplier's ⁹ fuse | Within three hours on weekdays between (at least) 7am to 7pm, and within 4 hours at weekends between (at least) 9am to 5pm. | £20 |
| 2 | Restoring supplies after a fault | Must be restored within 18 hours. For each further 12 hour period. | £50 (domestic) £100 (non-domestic) £25 |
| 4 | Estimating charges for connections and meter alterations | Within 5 days for simple jobs, and 15 days for others. | £40 |
| 5 | Notice of supply interruption | Customers must be given 5 days' notice | £20 (domestic) £40 (non-domestic) |
| 6 | Investigation of voltage complaints | Visit within 7 working days or substantive reply within 5 days. | £20 |
| 9 | Making and keeping appointments | A morning or afternoon appointment, or a timed appointment if requested by the customer. | £20 |
| 10 | Notifying customers of payments owed under the standards | Write to the customer and make payment within 10 working days. | £20 |

ii) electricity distribution - guaranteed standards in operation

3.7 **Responding to a mains fuse failure (GS 1):** this standard requires the companies to visit the customer's premises within a specified number of hours of being notified that the mains fuse has operated (i.e. that it has blown) or may have operated. The number of payments made under the standard has varied over the years. There have usually been about fifty payments, although the figure fell to 17 in both 1996/97 and 1997/98. Distributors do not seem to have found this standard burdensome and the targets seem sensible. As the customer is off supply in the circumstances envisaged by the standard it provides an important safeguard for customers.

⁹ The reference to 'a supplier's fuse' becomes confusing now that PES activities are to be clearly separated into distribution and supply. The 1989 Act used the term 'supply' somewhat loosely, in the context of PES activities. After separation the mains fuse on an incoming electricity service will be part of the distributor's equipment.

- 3.8 **Restoring supplies after a fault (GS 2):** this standard requires the restoration of supply, following a fault, within a specific timeframe. The electricity distribution industry has generally shown itself to be well prepared to meet the standard. The standard was revised in April 2000¹⁰ and now requires that supply is restored within 18 hours. When severe electric storms or extended adverse winter weather conditions have caused widespread outages in rural areas, however, the industry has sometimes found this standard challenging. Questions have been asked in Parliament about delays in reconnecting rural customers, and OFFER prepared two comprehensive reports for ministers (in April 1998 and May 1999) on companies' performance against the standards¹¹. This is an important standard with implications for the distribution price control and for the Information and Incentives Project (IIP) (which are discussed in further detail in paragraphs 5.18 to 5.21). It is, moreover, of great importance to rural customers to whose interests the Authority must have particular regard to in performing its functions under the 2000 Act.
- 3.9 **Estimating charges (GS 4):** this standard requires that the distribution business provides the customer with an estimate of charges for new connections or for moving a meter position. For simple jobs, an estimate of charges must be given within 5 days and for all other jobs within 15 days. Although metering is not a distribution function, moving the meter position usually involves changes to the incoming service, which is the distributor's responsibility. Since 1993/94 (when there were 91 payments) payments for breach of the standard have generally been few (13 in 1997/98, 38 in 1998/99 and 9 in 1999/00). The standard is important to customers, as such estimates can be a vital piece of information in planning, or deciding whether to proceed with, other work.
- 3.10 **Notice of supply interruption (GS 5):** this standard requires that customers are given at least 5 days notice of planned interruptions to supply. The standard has had a significant effect in improving the service to customers. In 1993/94 there were 1,594 payments for failure to give customers the requisite notice. By 1997/98 this had fallen to 251. In 1998/99, only 195 payments were made. The figure for 1999/00 was 183. Notice of planned supply interruption is important

¹⁰ SI 2000 No. 840

¹¹ The report published in April 1998 concerned winter storm interruptions during Christmas 1997 and the New Year 1998. The report published in May 1999 concerned similar interruptions on Boxing Day 1998.

to all customers. Industrial customers in particular will need to control their costs by identifying days on which production staff will not be required.

- 3.11 **Investigation of voltage complaints (GS 6):** this standard requires that a visit to investigate a voltage complaint will take place within 7 working days (or that a substantive reply will be given within 5 days). Maintaining the declared voltage is a fundamental distributor function. The number of breaches of the standard has been low (2 in 1996/97, 20 in 1997/98, 7 in 1998/99, and 4 in 1999/00).
- 3.12 **Making and keeping appointments (GS 9):** this standard requires that a morning or afternoon appointment is given to the customer (or a timed appointment, if the customer so requests). Failed appointments have been a major cause of PES customer dissatisfaction in both distribution and supply. Although the standard (these figures cover all PES appointments, for both distribution and supply work) reduced the number of recorded breaches (from 5,004 in 1993/94, to 1,167 in 1997/98), 1,264 compensation payments in 1998/99 and 1210 in 1999/00 remain high.
- 3.13 **Notifying customers of payments owed under the standards (GS 10):** this standard requires that companies notify customers of any payments that are owed to them under a guaranteed standard. As many customers will be unaware of their entitlement to a payment under the standards, this clear obligation is very important. The standard also has the effect of encouraging the companies to put adequate mechanisms in place to ensure that they accurately identify and record breaches of the standards. Generally, the PESs performed well against this standard, although it would appear both from customer casework and from the monitoring statistics that some either failed to put proper mechanisms in place, or attempted to evade compliance with the standard. The number of recorded breaches fell from 459 in 1994/95 to 196 in 1998/99. The increase to 982 in 1999/00 is attributable to billing problems encountered by one supplier.

iii) electricity distribution - overall standards

3.14 The existing overall standards allocable to distribution would seem to be:

| No. | Service | Required Performance |
|-----|---|---|
| 1a | Minimum percentage of supplies to be connected, following faults, within 3 hours. | Varies, between PESs, between 85% and 95% |
| 1b | All supplies to be reconnected, following faults. | Within 18 hours |
| 2 | All voltage faults to be corrected. | Within 6 months |
| 3 | Connecting new tariff premises to the electricity distribution system. | 30 working days (Domestic) 40 working days (Other) |
| 8 | Respond to all customer letters. | Within 10 working days. |

iv) electricity distribution - overall standards in operation

3.15 **Reconnection following faults (OS 1a and OS 1b):** these standards supplement GS2 and require that: a prescribed minimum percentage of customers are reconnected within 3 hours of a fault (OS1a); and all supplies to be reconnected within 18 hours (OS1b). Performance against the standard has generally been good. It is of fundamental importance to customers that companies so organise themselves as to be able to restore supplies promptly.

3.16 **Correction of voltage faults (OS 2):** the standard requires that all voltage faults are to be corrected within 6 months. Before the introduction of this standard, OFFER received occasional complaints from customers who had received low voltage for periods of several years, with little apparent action from the company. This was a legacy from the former area electricity boards. Performance against the target is now generally acceptable, and companies usually exceed the targets. This standard complements GS 6. Maintaining declared voltage is an essential requirement of network operation.

3.17 **Connecting new tariff premises to the electricity distribution system (OS 3):** the standard requires that all new tariff premises are connected within 30 days if they are domestic or 40 days for all other premises. PES performance against this standard now approaches 100% in all cases. It is worth noting at this stage that the Utilities Act will abolish the concept of 'tariff supply' and it may

therefore be necessary to consider how the future application of such a standard could be determined.

3.18 **Responding to customers' letters (OS 8):** the standard requires companies to respond to a set percentage of customers' letters within ten working days. Generally, PES performance against this standard (figures include both distribution and supply activities¹²) has been good. However, there have been isolated instances of significant shortfall by some companies, in some years.

v) electricity supply - guaranteed standards

3.19 Six of the existing guaranteed standards are associated with supply. Three of these (GS 3, 7 and 11) have to do with metering.

| No. | Service | Required Performance | Payment |
|-----|---|--|------------|
| 3 | Providing supply and meter | Arrange an appointment within 2 working days for domestic customers and 4 working days for non-domestic customers. | £20 - £100 |
| 7 | Responding to meter problems | Visit within 7 working days or substantive reply within 5 working days. | £20 |
| 8 | Responding to customers' queries about charges, and payment queries | A substantive reply and agreed refunds paid within 5 working days. | £20 |
| 9 | Making and keeping appointments | A morning or afternoon appointment, or a timed appointment if requested by the customer. | £20 |
| 10 | Notifying customers of payments owed under the standards | Write to the customer and make payment within 10 working days. | £20 |
| 11 | Responding to prepayment meter faults | Within 3 hours on weekdays and 4 hours at weekends. | £20 |

vi) electricity supply - guaranteed standards in operation

3.20 **Provision of a supply and meter (GS 3):** this standard requires that customers are offered an appointment in connection with the provision of a supply and meter within 2 working days for domestic customers and 4 working days for all

¹² Generally, it is expected that the customer's initial point of contact would be with their supplier who would then contact the relevant distributor, if required. However, in some instances, customers will correspond directly with the distributor.

other customers. As it will be the supplier's responsibility to ensure that the customer has an appropriate meter, and the requisite metering services, compliance with this standard will clearly be a supplier responsibility. That will remain the case where, exceptionally, the supplier has to arrange with the distributor to replace the mains fuse on the incoming main. Performance against the standard has been excellent, for some years. Only four breaches of the standard being recorded in 1997/98, two in both 1998/99 and 1999/00.

- 3.21 **Responding to meter problems (GS 7):** the standard requires companies to respond to customers who report a meter error, within a certain prescribed timescale. The company can respond either by making an appointment to investigate (within 7 working days), or by providing an explanation of why the meter appears to be operating outside the permitted limits of error (within 5 working days). While it is exceptional to find an electricity supply meter recording outside the permitted limits, and while few breaches of the standard have recently been recorded (12 in 1996/97, 9 in 1997/98, 5 in 1998/99, and 23 in 1999/00) the meter is essential to accurate billing and customer confidence in its operation is a key element in the relationship with the supplier.
- 3.22 **Responding to customers' queries about charges, and payment queries (GS 8):** this standard requires companies to reply within five working days to customers' charges and payment queries. Since 1995/96 breaches have been recorded at the rate of approximately 200 per year. The increase to 1215 in 1999/00 is attributable to billing problems encountered by one supplier.
- 3.23 **Making and keeping appointments (GS 9):** this standard requires that customers are offered a morning or afternoon appointment (or if the customer so requests, a timed appointment). The PES (combined distribution and supply) figures relating to GS9 have been set out at paragraph 3.12. Such a service is highly valued by customers.
- 3.24 **Notifying customers of payments owed under the standards (GS 10):** this standard requires companies to notify customers of any payments owed to them under a guaranteed standard. The PES (combined distribution and supply) figures relating to this standard have already been set out at paragraph 3.13.

3.25 **Responding to prepayment meter faults (GS 11):** this standard requires companies to respond to pre payment meter faults within 3 hours during the week and 4 hours at weekends¹³. This is a new standard for which only two years' figures are available (48 recorded breaches in 1998/99 and 70 breaches in 1999/00)

vii) electricity supply - overall standards.

3.26 Three of the five overall standards allocable to the supply activity are concerned with metering.

| No. | Service | Required Performance |
|-----|--|--|
| 4 | All customers who have been disconnected for non-payment to be reconnected before the end of the working day after they have paid the bill, or made arrangements to pay. | 100% |
| 5 | Visiting to move the meter, when asked to do so by the customer. | 15 working days in all cases. |
| 6 | Changing meters when necessary on change of tariff. | Within 10 working days of a domestic customer's request, in all cases. |
| 7 | Obtaining a firm meter reading for all domestic and business customers at least once a year. | Once a year. |
| 8 | Respond to all customer letters. | Within 10 working days. |

viii) electricity supply - overall standards in operation

3.27 **Reconnection of customers disconnected for non-payment (OS 4):** . this standard requires that all customers who have been disconnected for non-payment must be reconnected before the end of working day following payment of the bill (or the making of arrangements to pay). In almost every case, the PES businesses are achieving 100% against this target. Under the Utilities Act, the Authority will have specific obligations in respect of disadvantaged customers (including those of pensionable age, and those on low incomes), statutory guidance on social issues, and the Social Action Plan. Statistics relating to the prompt reconnection of those disconnected for non-payment are of particular interest both to Ofgem and to consumer groups.

¹³The proposed standard licence conditions for electricity distributors include an obligation on ex-PES electricity suppliers to continue to provide pre payment meter services within their old 'PES area'.

- 3.28 **Visiting to move the meter (OS 5):** this standard requires that when a company is asked to move a meter by a customer it must do so within 15 working days. In recent years, PESs have generally achieved 100 per cent under this standard. Following the separation of distribution and supply, this standard would have to apply only to those cases where any necessary work on the distributor's plant and equipment had been completed or, exceptionally, where no such work was necessary¹⁴.
- 3.29 **Changing meters, when necessary, on change of tariff (OS 6):** this standard requires that when a meter must be changed due to a change of tariff by a domestic customer, the company must change the meter within 10 working days of a customer's request. Most companies have achieved 100 per cent on this standard, in recent years. Those that have not done so well have, however, achieved in excess of 95 per cent. This indicates that there is still some marginal room for improvement by the ex-PES supply businesses. Although the separation of the PES electricity distribution and supply businesses (and the creation of former tariff customer schemes, under Part III of Schedule 7 to the Utilities Act) will end the concept of 'tariff supply' there will still be time-of-day tariffs that may require special metering equipment.
- 3.30 **Obtaining a firm meter reading for all domestic and small business customers (OS 7):** the standard requires that a firm meter reading is obtained for all domestic and business customers at least once a year. The target for this standard has recently been increased to 100 per cent. Some PESs are falling marginally short of that target. Regular meter reading is of considerable importance to many customers. Indeed the meter reader and the electricity bill following his/her visit are, for many customers, the only interface with the supplier.
- 3.31 **Responding to customers' letters (OS 8):** the standard requires companies to respond to a set percentage of customers' letters within ten working days.

¹⁴ The distributor's work in such cases would be covered by GS 4 (estimating charges) and GS 9 (making and keeping appointments). Keeping the appointment includes the completion of the agreed work in

Generally, PES performance against this standard (figures include both distribution and supply activities) has been good.

respect of which the appointment was made.

4. Gas – existing standards

Obligations in the gas industry

- 4.1 The existing standards of performance in the gas sector result from licence conditions, the Network Code and through voluntary standards of service, adopted by Transco, rather than being prescribed through regulations or statutory directions. The Competition and Service (Utilities) Act gave the DGGS the power to prescribe guaranteed and overall standards of performance in relation to gas supply services, but those powers have not been used.

Gas Transporters

i) obligations under condition 19 of the gas transporter licence

- 4.2 Standard condition 19 of the gas transporter licence requires that all gas transporters must establish standards of performance in respect of connections to premises using less than 2,500 therms and in relation to the prevention of gas escapes. The obligation is common to all gas transporters but Transco's licence contains some enhancements to condition 19, imposing additional obligations with respect to reporting on performance against the standards, and with respect to provision of information to the regulator. The fact that Transco owns and operates by far the greatest part of the gas pipeline network means that regulatory attention has, hitherto, focused mainly on the Transco standards. Other gas transporters are required to report on the operation of any 'compensation scheme' that may be required under the condition, by virtue of their conveying gas to domestic customers.

ii) Transco's obligations under the Network Code

- 4.3 The Network Code provides that, where Transco is or has been in breach of its obligation to make gas available for offtake from the system, it must pay:
- ◆ consumers using less than 73,200 kWh (2,500 Therms) £20 for each consecutive period of 24 hours, or part of such a period, commencing with the expiry of the first 24 hours of the failure; and

- ◆ larger users a payment calculated in accordance with a formula set out in the Network Code.

4.4 The Code requires that Transco make any payments that are owed under this provision to the relevant shipper. The shipper is required, under the conditions of its shipper licence, to pass the payment on to the relevant supplier, who in turn is required by the conditions of its supply licence to pass the payment on to the customer. The most recent figures for payments made to domestic customers, under this provision of the Network code, is £958,650 between June 1999 and May 2000. In relation to larger users, payments totalling over £3000 have been made since August 1999.

iii) Transco's voluntary standards

4.5 British Gas first began to operate its voluntary standards in 1992. When British Gas split, in 1996, obligations under the standards were allocated between Transco and British Gas Trading (BGT). Transco's 'Public Standards of Service' are summarised in the following table. For the purposes of this consultation, and for comparability with the electricity standards, those Transco standards attracting 'fixed compensation' have been listed first. They roughly parallel the guaranteed standards in electricity. Transco say that, depending on the circumstances, they may make discretionary compensation in respect of other standards. The following paragraphs briefly review the operation of the standards.

| Ser. | Standard | Performance level | Payment |
|------|---|---|--------------------|
| 1 | Making and keeping appointments Planned performance level 95% | Where required, appointments will be made on a morning or afternoon basis. Failure to give 24 hours' notice of inability to attend may attract a compensation payment. | £10 |
| 2 | Alternative heating and cooking facilities. Planned performance level 100% | Where Transco has to disconnect the gas supply for safety reasons, it will provide alternative heating and cooking facilities for customers who are disabled, chronically sick, or of pensionable age, or where there are children in the property. | £20 |
| 3 | Telephone calls Planned performance level 90% | All calls to Transco call centres to be answered within 30 seconds. | Disc ¹⁵ |
| 4 | Replies to correspondence – 1 Planned performance level 90% | Customer to receive a reply within 5 working days, except where immediate action is required. Interim replies will indicate when a full reply may be expected. | Disc |
| 5 | Replies to correspondence – 2 Planned performance level 90% | Correspondence requesting connection of premises likely to use less than 2,500 therms (73,200 kWh) per year will receive a reply in 5 working days (unless the request comes via a shipper or supplier). | Disc |
| 6 | Complaints Planned performance level 100% | A record will be kept of all complaints, from whatever source. | Disc |
| 7 | Visits Planned performance level 93% | Where a visit is appropriate, following receipt of correspondence or a complaint, contact will be made within 2 working days. The visit will be made within 5 working days, or later with the customer's agreement. | Disc |
| 8 | Notification of planned work Planned performance level 95% | Work for planned maintenance that requires interruption of the gas supply, and entry to the customer's premises will be the subject of notice of: at least 10 working days in respect of the service pipe; and at least 5 days in respect of the meter. | Disc |

¹⁵ References to 'Disc' mean that Transco may make discretionary payments to customers in respect of these standards.

| | | | |
|---|---|--|------|
| 9 | Gas emergencies (Transco currently undertakes this work, on behalf of other gas transporters ¹⁶) Planned performance level 97% | In respect of gas escapes, spillage of carbon monoxide or other hazardous situations, as quickly as possible but within at least one hour for uncontrolled escapes and two hours for controlled escapes. | Disc |
|---|---|--|------|

iv) Transco's standards in operation

- 4.6 Reporting is by calendar year. In the period from 1 March 1996 to 31 December 1996, Transco met or exceeded all the standards, except two (Recording complaints: 99% achievement against a target of 100% and attending uncontrolled gas escapes 96% against a target of 97%). In subsequent years Transco has met or exceeded all of the targets. From figures submitted in respect of June 2000, it appears set to do the same again, this year.
- 4.7 **Making and keeping appointments:** this standard requires that morning or afternoon appointments will be given, where required and that failure to give 24 hours notice of inability to attend the appointment will attract a compensation payment.
- 4.8 **Alternative heating and cooking:** this standard is unique to the gas industry and requires that where Transco has to disconnect the gas supply for safety reasons it will provide customers who are disabled, chronically sick, of pensionable age or those who have children in the property with alternative cooking and heating facilities. This standard is in place because gas outages, although uncommon, tend to be longer than electricity outages, and because those households that have mains gas tend to rely on it for heating and cooking.
- 4.9 **Telephone calls:** this standard requires that all calls to Transco call centres are answered within 30 seconds. As part of the Information and Incentives Project (IIP) initiative, which is discussed at paragraphs 5.18 to 5.21, Ofgem is considering the introduction of an overall standard on telephone response for

¹⁶ Other gas transporters may also operate emergency services, for example Elf Connect currently operates emergency services. However, due to Transco's position within the gas transportation industry, special condition 19 of the gas transporter licence places a specific obligation on Transco to provide emergency services for other gas transporters, if required.

electricity distributors. The existing Transco telephone standard could form the basis for a similar standard in relation to gas.

- 4.10 **Replies to correspondence 1¹⁷:** this standard requires that, except where immediate action is required, customers will receive a response within 5 working days. Interim responses must indicate when a full response will be forthcoming.
- 4.11 **Replies to correspondence 2:** this standard requires that customers requesting a new domestic connection will receive a reply within 5 working days (unless the request has come via a shipper or supplier). The 'Compensation Scheme for Late Responses to Requests for Quotations by Transco' was introduced in February 1999, under an order made by the DGGS under section 28(1) of the Gas Act.
- 4.12 **Complaints:** this standard requires that Transco keep a record of all complaints received, from all sources, not just written complaints. There is nothing in the standard that lends itself to monitoring and enforcement. Ofgem is of the view that the existing standard has been successful in fostering best practice in the company.
- 4.13 **Visits:** this standard requires that, where appropriate, once a complaint or correspondence has been received, contact will be made with the customer within 2 working days. If a visit is required it will be made within 5 working days, or later, with the customer's agreement. Whilst a guaranteed or overall standard on visits could be attractive, there will always be a high degree of subjectivity as to which correspondence and complaints might require a visit. It is likely to be difficult to arrange for an equitable system of compensation payments.
- 4.14 **Notification of planned work:** this standard requires that if work will result in the gas supply being interrupted then customers must be given at least 10 working days notice in relation to service pipe work and 5 working days notice in relation to meter work. This standard directly parallels GS 5 in the electricity

¹⁷ Generally, it is expected that the customer's initial point of contact would be with their supplier who would then contact Transco, if required. However, in some instances, customers will correspond directly with the Transco.

sector, which is discussed at paragraph 3.10 (because of the prospect of interruption, rather than the need to 'purge and relight').

- 4.15 **Gas emergencies:** this standard requires that if there has been a gas escape, a spillage of carbon monoxide or any other hazardous situation then Transco must respond as quickly as possible. This response must be within 1 hour in relation to uncontrolled escapes and within 2 hours for controlled escapes.

Gas suppliers

i) BGT's obligations under special licence condition 13A

- 4.16 Special condition 13A of British Gas Trading's (BGT's) gas supply licence requires that BGT set, and report on, performance standards in respect of gas supply services to domestic customers. These performance standards relate to: the supply of gas; ascertaining the quantity of gas supplied; and the recovery of gas charges. The BGT standards of performance discussed below comply with this obligation. These standards cover a wide range of customer safeguards that, in the electricity sector, are variously dealt with through standards of performance, licence conditions, codes of practice prepared in accordance with licence conditions, and voluntary service standards set by the companies.
- 4.17 The licences of other gas suppliers have no direct equivalent to special condition 13A, although standard conditions 16 to 21 provide for some of the same safeguards¹⁸. Section C (Supply to designated customers) of the new gas supply licence will replace conditions 16 to 21 with a suite of standard conditions affording additional protection to smaller customers¹⁹. Modifications made in accordance with the Social Action Plan will supplement these. The Secretary of State's statutory licensing scheme, made under paragraph 19(1) of Schedule 7 to the 2000 Act will incorporate the new standard licence conditions (determined by the Secretary of State under section 81 of the Utilities Act) into all existing gas supply licences. Those conditions, together with the statutory standards of performance for which sections 33A and 33B of the 1986 Act now provide may

¹⁸ These customer safeguards are: advice on the efficient use of gas; services for pensioners or disabled or chronically sick persons; facilities for blind and deaf persons; steps to be taken when charges are unpaid; and a prohibition on disconnection of pensioners in the winter months.

¹⁹ Ofgem is consulting separately on what the appropriate definition of small customers should be, for this and other purposes.

mean that there is no longer a need for special condition 13A and that BGT should simply be under the same obligations as other licensed gas suppliers.

ii) BGT's standards

4.18 As explained in paragraph 4.5, when British Gas split in 1996, the standards were split between Transco and BGT, as appropriate. BGT's 'Public Standards of Service' are summarised in the following tables. The serials quoted are those given in the information leaflet 'Standards of service for our gas customers'. For the purposes of this consultation, and for comparability with the electricity standards, those BGT standards attracting 'fixed compensation' have been listed first. They roughly parallel the guaranteed standards in electricity.

a) standards attracting fixed compensation

| Ser | Standard | Performance level | Payment |
|-----|---|---|---------|
| 6 | Making and keeping appointments Measure of performance 95% | Where required, appointments will be made on a morning or afternoon basis. Failure to give 24 hours' notice of inability to attend may attract a payment. | £11 |
| 9 | Appointments for final meter reading or clearance Measure of performance 99% | Morning or afternoon appointments (at two days' notice) for final meter reading or clearance. | £11 |
| 10 | Special meter reading or clearance, at the customer's request. Measure of performance 99% | Visit within three working days of request. Morning or afternoon appointments to be agreed, as required. | £11 |

b) Standards not attracting fixed compensation

| Ser | Standard | Performance level | % Target |
|-----|--|---|---|
| 1 | Telephone answering | Within 30 seconds. | 90% |
| 2 | Replies to customer correspondence | Within 5 working days. Interim replies to indicate the expected date of substantive replies. | 90% |
| 3 | Customer complaints | A record to be kept of all written customer complaints. | 99% |
| 4 | Visits | Following receipt of correspondence or a complaint, contact will be made within 2 working days. The visit will be made within 5 working days, or later with the customer's agreement. | 93% |
| 5 | Obtaining a gas supply | Request to be passed to the relevant gas transporter within 48 hours. | 99% |
| 7a | Credit meter accounts (meter reading) | The company will submit gas bills based on an actual meter read ²⁰ , at least once a year. | 90% |
| 7b | Credit meter accounts (meter reading) | The company will submit gas bills based on an actual meter read ²¹ , at least once every two years. | 99% |
| 8 | Meter reading frequency | Attempt to read meters six months after the previous reading or attempted reading. | 98% |
| 9 | Final meter reading or clearance | A morning or afternoon appointment must be given, if required, with at least 2 days notice. | 99% |
| 10 | Special meter reading or clearance | Visit within 3 working days of receiving a request. A morning or afternoon appointment to be agreed, if required. | 99% |
| 11 | Estimating procedures | Procedures should favour neither BGT nor its customers. Differences between actual and estimated gas usage will be monitored. | On 90% of occasions the company-wide weekly samples will be within +/- 4% points. |
| 12 | Account payment | No later than three months after an unpaid bill was dispatched, clear action will be taken to prevent build-up of debt. | 99% of unpaid bills |
| 13 | 'Helpline Pack' for defaulting customers | Where a customer's account is unpaid and there has been no contact with the company, BGT will send a 'Helpline Pack', encouraging contact. | 99% with whom no contact has been made |
| 14 | Visits concerning | Where a bill remains unpaid after 13 | 95% of |

²⁰ This meter reading can be taken by the customer.

²¹ This meter reading must be a company read.

| | | | |
|-----|---|--|---|
| | unpaid bills | weeks, the company's representative will visit the customer, to discuss an arrangement to pay. | customers visited |
| 15 | Payment arrangements | Unless standard 16 applies, the customer will be offered an affordable payment arrangement, to cover current consumption, plus a contribution towards arrears. | 100% of customers |
| 16 | Alternatives to payment arrangements | Where a payment arrangement is unsuitable, the company will offer a prepayment meter, or a Fuel Direct arrangement. | 100% of customers |
| 17a | Regular payment schemes | Monitoring of consumption against monthly payment to be undertaken every six months, and payments adjusted accordingly. | None. BGT monitors its performance by reference to the number of complaints received. |
| 17b | Regular payment schemes | Refunds will be made where there is a credit balance, and payments are in excess of the level required. | 100% of requests |
| 18 | Refunds | Where the customer is entitled to a refund, it will be sent within five working days of the request, or of the decision that a refund is appropriate. | 95% of requested refunds. |
| 19 | Defective/full meters | Where a defective or full meter means that the customer is off supply, a visit will be made within four hours of the request. | 95% of requests |
| 20 | Older, disabled or chronically sick customers | BGT will maintain a 'Gas Care Register', as described in the relevant code of practice. | None. BGT monitors the numbers registered and carries out 'internal analysis'. |
| 21 | Gas safety checks for those on the 'Gas Care Register'. | A check will be made within 28 days of the customer's joining the register, or later by agreement. | 95% of new Gas Care customers |
| 22 | Energy efficiency (services) | Customers to be advised annually of energy efficiency services available, and of a point of contact for further information. | 100% of customers |
| 23 | Energy efficiency (advice) | Free energy efficiency advice to be available from trained specialists, at local call rates. | None, but BGT monitor the number of enquiries. |
| 24 | Energy efficiency (and debt) | Information on reduction of energy costs to be given when visiting customers to discuss debt problems. | 100% of customers visited. |

4.19 BGT reports annually on performance against these standards. In 1998 and 1999, the company met or exceeded all of the standards. Figures submitted in respect of June 2000 indicate that the company is set to do so again in the current year.

iii) BGT's standards in operation

4.20 **Making and keeping appointments:** this standard requires that, appointments will be made on a morning or afternoon basis, and that failure to give 24 hours notice of an inability to attend will attract a compensation payment.

4.21 **Appointments for final meter reading or clearance and special meter reading or clearance at the customer's request:** the standard for final meter reading or clearance requires that BGT arranges an appointments with at least 2 days notice and offers a morning or afternoon appointment, if required. In relation to special meter readings or clearance, they must be made within 3 working days of the request and appointments must be on a morning or afternoon basis, if required.

4.22 **Telephone answering and replying to customer correspondence:** this standard requires that all calls are answered within 30 seconds. BGT is adhering to good practice in relation to these standards.

4.23 **Customer complaints:** this standard requires that a record is kept of all customer complaints. This standard was introduced because BGT did not, at one time, have a reliable record of customer complaints. There is nothing in the standard that lends itself to monitoring and enforcement.

4.24 **Visits:** this standard requires that following receipt of customer correspondence or a complaint, contact must be made with the customer within 2 working days. Any resulting visit must be made within 5 working days, or at a later date with the customer's agreement.

4.25 **Obtaining a supply:** this standard requires that all requests received must be passed to the relevant gas transporter within 24 hours. BGT's internal standard on obtaining a supply for a customer is a good internal standard to set, but, in a competitive market BGT is in a position that is no different from that of other gas suppliers.

4.26 **Credit meter accounts (meter reading)/meter reading frequency/ estimating procedures:** these standards have to do with the company's policy on estimated accounts, and include standards that: BGT will submit gas bills that are based on actual meter readings at least once a year; that BGT will attempt to read the meter six months after any previous reading or attempted reading; and that in estimating bills the differences between the actual and estimated usage will be monitored. In a competitive market, they appear to be matters for the terms of the supply contract. Customers often have strong views on the frequency of meter reading, and the associated costs. They will choose a supplier who provides what they want.

5. The future of standards in electricity and gas

Introduction

- 5.1 Standards can be an effective regulatory mechanism for improving specified areas of customer service, as can be seen from the improvements discussed in Chapters 3 and 4 in relation to the existing arrangements for the PESs, BGT and Transco. However, standards must not only be set at the right level, they must also be relevant. The future of standards in electricity and gas should therefore be considered both in relation to performance against the existing targets and also in relation to recent developments in the electricity and gas industries. Recently, there have been a number of such developments, which makes this an appropriate time to review the relevance of the existing arrangements in electricity and gas.

The Utilities Act 2000

- 5.2 The Utilities Act received Royal Assent in July 2000. One of the underlying policy objectives of the Utilities Act is the alignment, where possible, of the regulatory arrangements for electricity and gas. Accordingly, it is necessary to consider whether it would be appropriate to align electricity and gas standards of performance²². The arrangements could be aligned in accordance with the existing electricity arrangements, which would involve the setting of guaranteed and overall standards in gas, either to supplement or to replace the existing obligations and undertakings. Conversely, there could also be scope for replacing statutory electricity standards, with more flexible, voluntary arrangements.
- 5.3 The Utilities Act will abolish the PES businesses, creating a new licensable activity of distribution, and introducing a single electricity supply licence for supply in England, Wales and Scotland. The current electricity standards of performance are imposed on the PES businesses and will therefore need to be reviewed. The Utilities Act will allow the Authority to set guaranteed and overall standards for electricity distributors, gas transporters and electricity and

²² Whilst alignment is desirable, there may be some standards that are not suitable for alignment, for example, Transco's standard concerning the provision of heating and cooking facilities to domestic customers who are off supply.

gas suppliers. It is important to note that the Authority will be able to set different standards for different licensees, provided that such different standards will not mean that the licensee is unduly disadvantaged in competing with other licensees.

- 5.4 In addition, the Utilities Act will allow the Authority to impose financial penalties on licensees for failing to achieve prescribed guaranteed or overall standards of performance.

Development of competition

- 5.5 In December 1999, Ofgem published the conclusions of its review of the development of competition in the domestic gas supply market²³. The review found that competition in the gas supply market was developing well. 96% of domestic customers were aware of their ability to choose an alternative gas supplier and 25% of customers had switched suppliers. The number of rivals to BGT was well in excess of what was required for competition and most customers were able to obtain competitive offers, with discounts of up to 20% compared to BGT's tariffs. Subsequently, BGT's market share had decreased to about 71%. The review found that, increasingly, the electricity and gas supply markets were being characterised by 'dual-fuel' offers, with almost 50% of electricity and gas switchers supplied on such contracts. Ofgem remained concerned about the barriers to entry in the electricity supply market, many of which it planned to address over the next eighteen months. Ofgem is currently in the process of reviewing the development of competition in the domestic electricity and gas markets (and in the electricity small business market)²⁴. The conclusions of that review are expected to be published by the end of November.

- 5.6 In August 2000, Ofgem published the conclusions of its review of the development of competition in the industrial and commercial gas market²⁵. This showed that competition in the industrial and commercial gas supply market as a whole, and most sub-sectors of the market, was developing well. There were about 30 or more active shippers and suppliers competing in the market. BGT's

²³ 'A Review of the Development of Competition in the Domestic Gas Market' December 1999.

²⁴ 'Domestic gas and electricity supply, Market survey 2000' August 2000.

overall market share had declined over the period of the review to about 12% of gas shipped to the industrial and commercial market, excluding gas for power generation, natural gas vehicles and feedstocks. For the market as a whole BGT's market share was about 20% of gas shipped. There were about 4 companies with a market share of more than 10% of gas shipped with 2 companies having a greater market share than BGT. There was evidence in a number of sub-sectors of the market that customers were changing supplier in response to changes in suppliers' relative prices, which is the type of customer behaviour that would be expected in a well developed competitive market. There had been few complaints in the review about barriers to entry in the market and there did not appear to be any significant barriers to suppliers making, and customers receiving, potentially competitive offers. Ofgem is currently reviewing the development of competition in the industrial and commercial electricity supply market and expects to publish its conclusions shortly.

- 5.7 By the middle of August 2000, more than 5.5 million customers had changed their gas supplier, and almost 5.5 million had changed electricity supplier²⁶. Approximately 18% of small businesses (about 380,000) had signed contracts with a new electricity supplier, by March 2000. For most customers changing supplier, price is recognised to be the crucial issue. The National Audit Office recently estimated that the benefits for consumers from the introduction of competition in the gas market amount to some £1 billion annually.
- 5.8 Separation of the gas transportation business from the gas supply business has resulted in benefits for customers that would not otherwise have been realised. Separation of the electricity distribution and supply businesses will promote competition in electricity markets, further benefiting small customers in terms of price, service and transparency. Additionally, in relation to small customers, Ofgem will be pressing forward with work on competitive meter and data services, including meter provision, maintenance, and reading in both gas and electricity.

²⁵ 'A Review of the Development of Competition in the Industrial and Commercial Gas Supply Market' August 2000.

²⁶ These figures refer to the number of customers that have transferred from the incumbent supplier within their supply area.

5.9 In parallel with this consultation, Ofgem is undertaking some market research to obtain an indication of the value that customers place on standards of performance. The market research will explore customer thinking on:

- ◆ the relative importance of the existing standards;
- ◆ the services that customers value most when there is a problem (e.g. compensation, an apology, or the ability to make telephone contact readily);
- ◆ whether the regulator should set formal standards or provide information to help customers choose a supplier;
- ◆ what the likely trade-off would be between formal standards and price reductions;
- ◆ whether it is important for the same standards to apply to gas and electricity supply (or to activities which facilitate supply);
- ◆ whether, instead of a national system of regulatory standards, suppliers should be free to set their own; and
- ◆ how the standards might address the problem of supply outages (especially in electricity).

5.10 The results of this research will aid consideration of the future application of standards of performance in the gas and electricity industries.

5.11 In addition, the opening up of competition in the electricity and gas supply markets has resulted in the development of an active dual-fuel market. Customers purchasing electricity and gas from the same supplier, and those comparing suppliers' offers, could find it confusing that different performance standards apply to the two fuels, such customers would benefit from the alignment of the regulatory arrangements for gas and electricity, where feasible.

Reduction of regulatory intervention

5.12 The Authority's principal objective, under the Utilities Act, is to protect the interests of consumers, wherever appropriate by promoting competition. Ofgem

believes that the development of competitive markets will provide protection for consumers.

5.13 Thus, it is Ofgem's policy to withdraw from direct regulation as competition develops. Ofgem has already removed price controls for all domestic direct debit customers and is committed to removing them, subject to the development of competition, for all domestic customers by 2002. The future application of price controls in the gas supply market will be considered in Ofgem's forthcoming publication of its initial proposals on whether to continue to price control BGT domestic tariffs.

5.14 In considering the development of competition in relation to certain activities, such as supply, it is necessary to consider whether it remains appropriate for the regulator to continue to prescribe standards of performance for licensees.

Regulatory developments

5.15 In October 1999, the five regulatory offices²⁷ published a statement on joint working. The statement included a work programme on service delivery standards. It envisaged consideration of:

- ◆ the degree of consistency in service measures and standards used by the regulators (including the scope for benchmarking between utilities and service industries);
- ◆ the requirements for securing reliable information; and
- ◆ options for publication of information on company performance, especially in competitive markets.

5.16 The joint work programme has yet to produce its formal report, but discussion has resulted in some suggested recommendations that are relevant to this consultation. The joint working group on best practice on service delivery standards saw merit in:

²⁷ The Office of Water Services (OFWAT), The Office of Telecommunications (OFTEL), The Office of the Rail Regulator (ORR), The Office of Gas and Electricity Markets (Ofgem), and the Office for the Regulation of Electricity and Gas (N. Ireland) (Ofreg).

- ◆ Ofgem developing measures of network performance for the gas industry;
- ◆ a performance measure on ease of telephone contact for both the electricity and gas industries;
- ◆ exploring the options for international benchmarking of service standards in non-competitive activities²⁸; and
- ◆ securing independent validation of data provided by the regulated companies.

5.17 Any consideration of the future application of standards in electricity and gas should be mindful of the work of the joint work programme and the underpinning aim of their work, which is to aid consistency in utility regulation where appropriate.

Price control and the Information and Incentives Project

i) electricity

5.18 The final proposals of the electricity distribution price control review (December 1999) included a number of commitments relating to standards of performance. These were the introduction of:

- ◆ automatic payments (under Guaranteed Standard 2 (GS2)) if supply is not restored within an 18 hour period following an interruption;
- ◆ a new overall standard covering the maximum number of interruptions experienced by customers. Ofgem is considering the appropriate level for this standard;

²⁸ Ofgem considers there to be potential for international benchmarking of non-competitive activities. In time, that may particularly be the case within the EU. At present, however, industry structures overseas make it difficult to identify reliable comparators for benchmarking network operations. Difficulties include differing degrees of unbundling and business separation, and of government ownership and control. Many countries have opted for single-buyer or third party access arrangements that do not readily compare with the UK's use of system approach. Perhaps most importantly, for the purposes of this consultation, there is, as yet, little consensus as to the purpose and content of universal service obligations. The European Commission's Directorate General for Energy and Transport is currently working on public service obligations in the electricity and gas sectors. The outcome of that study may suggest further initiatives that might be taken forward later.

- ◆ a new guaranteed standard on multiple interruptions under which customers suffering more than a specified number of interruptions will be entitled to a compensation payment (from April 2002); and
- ◆ a new overall standard on telephone response times, such that 90 per cent of calls are answered, with a substantive response, within 15 seconds (in normal circumstances) and 80 per cent of calls are answered within 30 seconds (in exceptional circumstances).

5.19 The December 1999 price control proposals also envisaged:

- ◆ companies' introducing measurement systems to monitor short²⁹ interruptions to supply (from April 2001), as part of the IIP final proposals which were published in September (see paragraph 1.4), Ofgem proposed, following consultation, changing the definition of a short interruption, from 0-1 minutes to 0-3 minutes;
- ◆ a commitment to review Overall Standard 1a (OS1a), which specifies the percentage of interruptions that should be restored within three hours of the occurrence of a fault.

5.20 Directly related to the future price control of electricity distribution networks (and therefore to this consultation) is Ofgem's Information and Incentives Project (IIP), about which there has been separate consultation. Ofgem considers that the IIP is focused on providing incentives to distribution businesses to improve the quality of service to customers as a whole, while the guaranteed and overall standards are primarily targeted at protecting the interests of individual customers in terms of the service that they receive. Inevitably, there is some overlap between the two.

5.21 The proposals in this paper about guaranteed and overall standards relating to electricity network performance are partly based on work that has been done in respect of the IIP initiative. Because of the need for a consistent regulatory policy on service standards and allowed distribution revenue, there are links between the two projects, and between various other regulatory mechanisms.

²⁹ Short interruptions are those having a duration of less than one minute.

ii) gas

- 5.22 There is a similar overlap between regulatory standards and the operation of price controls in relation to Transco in gas. The allowance for Transco's costs in the price control is set on the basis of defined service levels within a standards of service package. As part of the 2002 Transco price control review, Ofgem is considering whether existing standards should be revised, whether new standards should be introduced and the extent to which the costs of these standards should be included within the price control. The possibility of further incentives for improved services being included within the price control mechanism for each business is also being considered (in a similar initiative to the IIP, which is discussed above). Such an approach would focus on output measures and standards of performance.

Proposals

- 5.23 Ofgem believes that, for the foreseeable future, standards should be set for electricity distributors and gas transporters, as monopoly businesses. Competitive forces cannot be relied on to ensure high standards of service, and therefore certain minimum standards of service should be prescribed. In Chapters 6 and 7, views are sought as to what standards should apply to electricity distributors and gas transporters and at what performance levels those standards should be set. The proposals contained in Chapter 7 will relate to all gas transporters.
- 5.24 Following the introduction of competition in the electricity and gas supply market, Ofgem believes that it is timely to review the appropriateness of setting standards of service on suppliers. In Chapter 8, views are sought as to the appropriateness of setting service standards in the competitive supply markets, and if so, what those standards should be and on whom any such standards should be set.
- 5.25 Standards in relation to metering and connections are considered separately from other supply and network services. Whilst these services are open to competition, that competition has not yet developed to the same extent as it has in supply. Therefore, Chapters 9 and 10 seeks views on the appropriateness of

setting guaranteed and overall standards on suppliers in relation to metering and on network operators in relation to connections.

6. The future of standards in electricity distribution

Existing standards

- 6.1 Those existing guaranteed and overall standards of performance which are relevant to the ex-PES electricity distribution businesses are discussed in Chapter 3. In summary, they are: responding to mains fuse failures (GS1); restoring supplies after a fault (GS2); estimating charges (GS4); notice of planned interruptions to supply (GS5); investigation of voltage complaints (GS6); the making and keeping of appointments (GS9); the notification of payments owed under the guaranteed standards (GS10); reconnection following a fault (OS1a and OS1b); the correction of voltage faults (OS2); the connection of new tariff premises to the electricity distribution system (OS3); and responding to customer's letters (OS8). Performance against these standards is also discussed in Chapter 3.
- 6.2 It is widely acknowledged that electricity distribution will continue to display marked monopoly characteristics in the foreseeable future. Whilst ancillary services like connections and meter provision are being opened up to competition, the 'wires' business is not expected to attract new entrants in quite the same way. Therefore, customers who are receiving low levels of service will not be able to switch to another operator. In view of this Ofgem considers it appropriate to ensure that customers receive a certain minimum level of service.
- 6.3 The Authority's principal objective under the Utilities Act is to protect the interests of consumers. It is Ofgem's view that it is necessary to retain prescribed standards of performance relating to the restoration of supply and the notification of planned interruptions, as customers should be able to take electricity from the system. Traditionally, technical developments in electricity distribution engineering have been somewhat slow, and the setting of guaranteed and overall standards in this area helps to incentivise licensees. Similarly, Ofgem proposes that the existing standard on the making of a connection should be retained³⁰.

³⁰ The future of standards on network connections is addressed separately in Chapter 10 of this paper.

- 6.4 Ofgem proposes that the existing standards for estimating charges, the investigation and correction of voltage complaints, the making and keeping of appointments and responding to customer correspondence are retained in order to ensure that certain minimum levels of customer service are met.
- 6.5 Recently, technical innovation, IT solutions and new approaches to asset management are creating options for improved efficiency and customer service in the distribution businesses. It could be argued that these changes are due, in part, to the influence of initiatives such as incentive price regulation. However, whilst improvements are being made, Ofgem believes that standards continue to have an important role to play in providing an incentive for improvement.
- 6.6 An output based incentive regime will be introduced from April 2002 as part of the IIP (which is discussed at paragraphs 5.18 to 5.21). This focuses on three key outputs, namely the number and duration of interruptions to supply and the telephone response that distribution businesses provide when they are contacted by customers. Ofgem intends to review the operation of the incentives regime in 2004 as part of the next distribution price control review. Ofgem will want to consider how the interests of customers are best protected and whether, in the light of this interaction with the IIP, it would be appropriate to reduce the scope of the overall standards scheme. This would have benefits for reducing the regulatory burden on distribution businesses although Ofgem would need to be sure that the interests of customers are adequately protected and that the companies are provided with appropriate incentives by the various regulatory mechanisms.
- 6.7 Given that electricity distribution is not competitive, Ofgem believes that the existing guaranteed and overall standards in electricity distribution, should be retained and should apply to all licensed distributors³¹. The introduction of more flexible, voluntary standards to replace the existing standards would not be appropriate given that the distribution businesses constitute local monopolies.
- 6.8 It is Ofgem's view that guaranteed and overall standards in relation to the following should be retained:

³¹ Exemption regulations, under the 2000 Act, will set out which distributors will require a licence, and which will be exempt from that requirement.

- ◆ responding to a failure of a supplier's fuse (GS1); the restoration of supply following a fault (GS2, OS1a and OS1b);
- ◆ estimation of charges for connections or the moving of a meter (GS4);
- ◆ investigation and correction of voltage complaints (GS4 and OS2);
- ◆ notification of planned supply interruptions (GS5);
- ◆ connection of premises to the system (OS3); and
- ◆ the making and keeping of appointments and responding to customers' correspondence (GS9 and OS8)³².

6.9 The existing guaranteed and overall standards were revised in April 2000 (SI 2000 No. 840), therefore, Ofgem is generally not proposing to revise the existing performance targets. However, in accordance with the underlying policy of the Utilities Act, which was to align electricity and gas regulation, Ofgem believes that it would be appropriate to align the electricity and gas performance targets relating to responding to customer's correspondence. At present, PESs must reply to customer's correspondence within 10 working days, whilst in gas Transco's standard requires responses within 5 working days. Ofgem would welcome views on its proposals to adopt a standard that requires electricity distributors to respond within 5 days, this would align the electricity standard with the current Transco target of 5 working days, which would be extended to all gas transporters (see Chapter 7).

Additional guaranteed and overall standards

6.10 There are a number of areas in which it might be appropriate to set additional guaranteed and/or overall standards on electricity distributors:

- **Telephone calls:** currently, there is no standard of performance on PESs relating to the speed with which they answer telephone calls. In gas, Transco currently has a standard that 90% of telephone calls to their call centres are answered within 30 seconds. In relation to gas, Ofgem is

³² Whilst, generally, it is expected that the customer's initial point of contact would be their supplier who would then contact the relevant distributor, in some instances, customers will correspond directly with the distributor.

proposing to convert this standard into an overall standard, on all gas transporters and is inviting views on whether the current performance target should be increased to 98%. Ofgem would welcome views on the appropriateness of introducing a similar standard for electricity distributors, at this time. However, it is important to note, that the IIP initiative, which is discussed in paragraphs 5.18 to 5.21, proposes the introduction of a standard that would require calls to be answered within 15 seconds in normal circumstances (and within 30 seconds in exceptional circumstances). Therefore, it is for consideration whether it would be appropriate to introduce an overall standard relating to telephone calls at this time. Any overall standard set for electricity distributors would need to be reviewed in the light of the IPP initiative;

- **Quality of service issues:** in previous consultations, consumer representatives have called for an extension of the standards to provide better coverage of quality of service issues³³. These issues are considered in the context of the IIP initiative (which is discussed at paragraphs 5.18 to 5.21);
- **Information and Incentives Project (IIP):** it is necessary to take into account the work that has been done, to date, in respect of the IIP initiative, which is discussed in greater detail at paragraphs 5.18 to 5.21. The need for a consistent regulatory policy on service standards and allowed distribution revenue, means that there are inevitably links between the two projects. However, it is for the IIP to deal with standards relating directly to electricity network performance;
- **Connections:** consideration of the future of standards for connections to the distribution system are considered in Chapter 10. In summary, however, Ofgem considers that new standards on connections to electricity networks should be introduced, but not until after the next distribution price control review (probably in April 2004);
- **Connected generation:** some have suggested that the standards of performance should be extended to cover network access arrangements to

facilitate competition in generation. The 2000 Act provides for guaranteed standards of performance 'in connection with the activities of electricity distributors, so far as affecting customers or potential customers of electricity suppliers...'. This does not seem capable of extension to cover embedded generation. An overall standard would not appear capable of achieving anything that cannot already be achieved under the new standard distribution licence conditions 5³⁴ (Basis of charges for use of system and connection) and 30 (Long Term Development Statement); and

- **prompt payment of compensation:** two electricity consumers' councils have suggested that suppliers should be obliged to make such payments within ten working days, even if they have not received the requisite funds from the distributor. While this proposal has some attraction, it could have adverse cash-flow implications for a small supplier. Ofgem's present view is that the proposed requirement (under standard condition 51) to make payment 'as soon as reasonably practicable after its receipt by the licensee...' is preferable.

Proposals

6.11 Ofgem proposes that the following guaranteed and overall standards be put in place for electricity distributors. The standards should apply to all customers. For completeness, standards have been included in these proposals which reflect the possible standards currently being considered by the IIP (from April 2002). Standards relating to network connections are discussed in Chapter 10 of this paper. It is important to note that the relevance and need for overall standards on electricity distributors may, at a later date, need to be reconsidered in the light of the IIP initiative. However, as any standards under the IIP initiative will not be introduced until 2002, Ofgem believes that overall standards should, at present, be set.

³³ 'Quality of Supply and Capital Expenditure. A paper by the Director General of Electricity Supply'. 25 October 1995.

³⁴ References to specific (numbered) proposed new standard licence conditions included in this paper relate to the versions of the standard licence conditions that were published for consultation in February 2000. Please note that these numbers will differ from those contained in the revised standard licence conditions which will be published shortly, for final consultation.

i) Guaranteed standards

| New No. | Service | Required Performance | Penalty Payment |
|-----------------|--|---|--|
| 1 | Responding to failure of a supplier's fuse | Within three hours on weekdays between (at least) 7am to 7pm, and within 4 hours at weekends between (at least) 9am to 5pm. | £20 |
| 2 | Restoring supplies after a fault | Must be restored within 18 hours. For each further 12 hour period. | £50 (domestic) £100 (non-domestic) £25 |
| 3 ³⁵ | Estimating charges | Within 5 days for simple jobs, and 15 days for others. | £40 |
| 4 | Notice of planned supply interruption | Customers must be given 5 days' notice. | £20 (domestic) £40 (non-domestic) |
| 5 | Investigation of voltage complaints | Visit within 7 working days or substantive reply within 5 days. | £20 |
| 6 | Making and keeping appointments | A morning or afternoon appointment, or a timed appointment if requested by the customer. | £20 |
| 7 | Notifying customers of payments owed under the standards | Write to the customer and make payment within 10 working days. | £20 |

ii) Overall standards

| New No. | Service | Required Performance |
|-----------------|---|---|
| 1a | Minimum percentage of supplies to be connected, following faults, within 3 hours. | |
| 1b | All supplies to be reconnected, following faults. | Within 18 hours |
| 2 | All voltage faults to be corrected. | Within 6 months |
| 3 ³⁶ | Connecting new premises to the electricity distribution system. | [] working days (Domestic) [] working days (Other) |
| 4 ³⁷ | Respond to all customer letters. | Within 5 working days. |
| 5 From | A new standard covering the maximum number of interruptions experienced. | (see discussion at paragraphs 5.18 to |

³⁵ This standard might, in time, be superseded by other standards relating to network connections. See Chapter 10.

³⁶ Please see Chapter 10 for discussion on the future application of standards on network connections.

³⁷ Ofgem is seeking views on its proposal to align the current standard in electricity with Transco's standard that customer's letters are responded to within 5 days.

| | | |
|----------------------------|--|---|
| April 2002 | | 5.21) |
| 6 From April 2002 | A new standard covering telephone response times | Probably 90 per cent of calls answered within 15 seconds, in normal circumstances. Perhaps a lesser standard for exceptional circumstances. |

7. The future of standards in gas transportation

Existing standards

- 7.1 Currently, some obligations are imposed on all gas transporters by virtue of standard condition 19 of the gas transporter licence. These relate to the connection of premises using less than 2,500 therms and the prevention of gas escapes. However, Transco has additional obligations and standards under standard condition 19, the Network Code and through voluntary standards of service. The Utilities Act provides for guaranteed and overall standards, such as those that currently operate in electricity distribution, to be set for gas transporters, and therefore a standard licence condition such as condition 19 of the gas transporter licence may no longer be required³⁸. Performance against the existing standards is discussed in Chapter 4.
- 7.2 Whilst a small number of new entrants are active in the gas transportation market, Transco continues to own and operate the greater part of the gas network. Gas transportation, like electricity distribution, will continue to exhibit monopolistic tendencies. As competitive forces cannot be relied on to ensure high standards of service in relation to gas transportation, certain minimum standards of service should be prescribed.
- 7.3 Whilst the use of licence obligations, the Network Code and voluntary arrangements has been successful Ofgem believes that there is merit in converting some of the existing standards into statutory guaranteed and overall standards. Guaranteed and overall standards are already in operation in relation to electricity distribution and their introduction in relation to gas transportation would accord with the underlying policy of the Utilities Act, to align electricity and gas regulation. Given that the network businesses are, in effect, monopolies, customers should be assured of certain minimum standards of service. This would be better achieved through the introduction of statutory

³⁸ This envisages deletion of much of standard licence condition 23 in the proposed gas transporter licence on which Ofgem consulted in February 2000. However, the provisions of that condition which relate to the passing on of any compensation payments to shippers and suppliers will remain. Ofgem invites views, in Chapter 11 of this paper as to whether such an obligation should be included in the standard licence conditions or whether it is a matter that should be addressed through the regulations in which the standards are prescribed.

standards in gas transportation than through the replacement of the existing statutory standards in electricity with more informal arrangements.

- 7.4 Ofgem believes that statutory standards should be put in place covering: the making and keeping of appointments; responding to telephone calls; and replying to customers' correspondence. As there is a lack of competitive forces in the market, there may be insufficient impetus on the companies to offer improved standards of service without such statutory standards.
- 7.5 Standards relating to important safety issues such as gas emergencies should be statutory standards and should apply to all gas transporters who operate gas emergency services. In addition, standards on the notification of planned work and the provision of alternative heating and cooking appliances to certain customers when their supply has been interrupted should also be statutory standards.
- 7.6 In summary, Ofgem proposes that the following existing standards are converted into guaranteed and overall standards and apply to all gas transporters:
- ◆ making and keeping appointments (guaranteed standard);
 - ◆ alternative heating and cooking (guaranteed standard);
 - ◆ notification of planned work (guaranteed standard);
 - ◆ responding to telephone calls (overall standard);
 - ◆ replying to correspondence - 1 (overall standard)³⁹; and
 - ◆ gas emergencies (overall standard).
- 7.7 The performance targets for these standards, and any proposed compensation payments, are included in the table at paragraph 7.10. Transco's current performance targets for these standards have been met or exceeded for the last three years. Therefore, Ofgem considers that it might be appropriate to increase some of the existing performance targets. Ofgem invites views on the

³⁹ Whilst, generally, it is expected that the customer's initial point of contact would be their supplier who would then contact the relevant transporter, in some instances, customers will correspond directly with the transporter.

appropriateness of following suggested increases: responding to gas emergencies (from 97% to 98% in relation to uncontrolled escapes and from 97% to 99% in relation to controlled escapes); the making and keeping of appointments (from 95% to 97%); notification of planned work (from 95% to 99%); the answering of telephone calls (from 90% to 98%); and replying to correspondence (from 90% to 96%).

- 7.8 These proposals refer only to the conversion of some of Transco's existing standards into regulatory standards for all gas transporters. However, Ofgem would of course welcome any decision by a gas transporter to set any additional, voluntary standards of service.

Additional standards

- 7.9 There are a number of areas in which it might be appropriate to set additional guaranteed and/or overall standards on gas transporters:

- **connections:** in February 1999, the DGGS made an order under section 29 of the Gas Act requiring Transco to comply with certain standards of performance in respect of network connections. The standards combine features of guaranteed and overall standards, in that compensation payments do not become payable until certain overall, percentage performance targets have been breached. Ofgem considers that, in due course, there is a good case for basing new guaranteed and overall standards on the standards that were introduced under the Order. Such standards would apply to all licensed gas transporters. Additionally, Ofgem considers that there would be merit in guaranteed standards requiring connections to be completed within a set period after a quotation has been accepted. These issues are considered further in Chapter 10;
- **supply outages:** the existing Transco standards make no provision for compensation for customers in the case of supply outages. Few payments have been made under the existing Network Code provision. Ofgem considers that, as part of the alignment of gas and electricity standards, it might be appropriate to introduce a guaranteed standard on restoring supply after a fault. The standard could parallel the existing electricity provision. It is possible that regulatory standards might not be suitable in relation to gas

as the restoration of the gas supply is dependent on being able to enter the premises. However, it could be possible to take account of this when preparing the exemptions to the regulations (as discussed in Chapter 11). Ofgem invites views on this issue, and in particular how the introduction of such a standard would impact on the Network Code; and

- **Notification of entitlement to a compensation payment:** Ofgem proposes that gas transporters should be under an obligation (similar to electricity GS 10) to notify customers when they are entitled to a payment under the standards. In proposing such a standard, consideration will need to be given as to how the information necessary to fulfil the standard could be made available to gas transporters.

Proposals

- 7.10 Ofgem proposes that the following guaranteed and overall standards of performance are introduced for all gas transporters. It is recognised that some of the proposed performance targets for the overall standards are lower than Transco's current performance levels. However, it is important to note that the Authority is able to set different performance levels for different gas transporters, if the differences are such that no transporter would be unduly disadvantaged in competing with other transporters.
- 7.11 Furthermore, it is important to note that, where applicable, the proposed standards would relate to the range of the gas transporter's activities, despite any unbundling that might have occurred. For example, the proposed standards in relation to answering telephone calls and replying to customer's letters would not apply purely in relation to transportation activities but would also relate to metering. The proposed standard regarding the provision of alternative heating and cooking facilities would relate to the transportation business.

i) guaranteed standards

| No. | Standard | Performance level | Payment |
|------------|--|---|--|
| 1 | Making and keeping appointments | Where required, appointments will be made on a morning or afternoon basis. Failure to give 24 hours' notice of inability to attend may attract a payment. | £10 |
| 2 | Alternative heating and cooking facilities. | Where the transporter has to disconnect the gas supply for safety reasons, it will provide alternative heating and cooking facilities for customers who are disabled, chronically sick, or of pensionable age, or where there are children in the property. | £20 |
| 3 | Notification of planned work | Work requiring interruption to the gas supply, and entry to the customer's premises will be the subject of notice of: at least 10 working days in respect of the service pipe; and at least 5 days in respect of the meter. | £20 (domestic) £40 (non-domestic) (as per electricity) |
| 6 | Notifying customers (or relevant suppliers, so that they can pass the information to customers) of payments owed under the standards | Write to the customer (or supplier) and make payment within 10 working days. | £20 |

ii) overall standards

| No. | Standard | Performance level | Target |
|------------|---|---|---------------|
| 1 | Making and keeping appointments | Where required, appointments will be made on a morning or afternoon basis. | 97% |
| 2 | Alternative heating and cooking facilities. | Where Transco has to disconnect the gas supply for safety reasons, it will provide alternative heating and cooking facilities for customers who are disabled, chronically sick, or of pensionable age, or where there are children in the property. | 100% |

| | | | |
|-----------------|------------------------------|---|----------------|
| 3 | Notification of planned work | Work requiring interruption to the gas supply, and entry to the customer's premises will be the subject of notice of: at least 10 working days in respect of the service pipe; and at least 5 days in respect of the meter. | 99% |
| 4 ⁴⁰ | Telephone calls | Calls to be answered within 30 seconds. | 98% |
| 5 | Replies to correspondence | Customer to receive a reply within 5 working days, except where immediate action is required. Interim replies will indicate when a full reply may be expected. | 96% |
| 6 | Gas emergencies | In respect of gas escapes, spillage of carbon monoxide or other hazardous situations, as quickly as possible but within: at least one hour for uncontrolled escapes at least two hours for controlled escapes. | 98% 99% |

⁴⁰ It is noted that the proposed performance target of 30 seconds does not accord with the 15 second target which is being considered in relation to the IIP initiative. It is Ofgem's view that, at present, the standard should remain at 30 seconds, although it may be appropriate to review the target in the light of the IIP. Ofgem is seeking views on the appropriateness of introducing an equivalent standard in relation to electricity distributors prior to the introduction of any standards under the IIP initiative.

8. The future of standards in electricity and gas supply

Existing standards

- 8.1 At present a wide range of standards apply, in both electricity and gas, to what can be considered to be supply services. In electricity, these standards are contained in guaranteed and overall standards which have been placed on the PESs under sections 39 and 40 of the Electricity Act.
- 8.2 In gas the standards are contained in special licence condition 13A of BGT's gas supply licence and in the voluntary standards of service that are currently operated by BGT. The 'catch-all' approach in special condition 13A may have been appropriate when BGT had captive customers, in a competitive market characterised by increasing numbers of dual-fuel contracts it may be appropriate to review this approach. The proposed new standard licence conditions for gas suppliers will afford additional protection to smaller customers (see paragraph 4.17) and the Authority's powers (as yet, unexercised) to set guaranteed and overall standards for gas suppliers under sections 33A and 33B of the Gas Act may indicate that the continuation of special condition 13A of BGT's supply licence is unnecessary and that some re-categorisation and possible alignment with electricity arrangements might be appropriate.
- 8.3 The existing standards generally cover customer service issues, such as responding to customer's queries and correspondence, and the making and keeping of appointments. The standards also relate to metering and include standards on: the frequency of meter reading; responding to pre-payment meter faults; and the provision of a meter. Whilst metering is a supplier activity, it is appropriate to consider the future application of standards in electricity and gas separately from other areas of supply as competition in metering is not as fully developed. The future of standards in metering is considered in Chapter 9 of this paper.

Development of competition

- 8.4 Competition is continuing to develop in the electricity and gas supply markets, with over 5.5 million customers changing their gas supplier, and almost 5.5 million changing their electricity supplier by March 2000. An active dual-fuel

market has also emerged. The separation of the PES electricity distribution and supply businesses, which is discussed at paragraph 5.8, should further promote competition in the electricity markets.

- 8.5 In parallel with this consultation, Ofgem is conducting market research into consumer opinion on a range of issues. One objective of this market research is to gauge the value that customers place on certain services, particularly in the competitive electricity and gas supply markets. The results of this market research, which is discussed in further detail in Chapter 5 of this paper should be helpful in informing consideration of the future of standards of performance.

The future of standards

- 8.6 It is Ofgem's policy to withdraw from direct regulation as competition develops. Therefore, it is necessary to consider whether the development of competition in the electricity and gas markets means that it is no longer appropriate for the regulator to set guaranteed and overall standards of performance on suppliers.
- 8.7 There is a fundamental question as to what, by setting standards of performance, a regulator should be seeking to achieve. OFFER's 'Report on Customer Services 1997/98' explained the policy of using guaranteed and overall standards to achieve greater consistency in the services provided by the 14 PESs. There was considerable merit, between 1991 and 1998 in progressively requiring the PESs to conform to industry best practice on service provision. The question now is whether a regulator should be seeking to achieve consistency or to permit diversity. Whilst consistency is a desirable aim in relation to the monopoly network businesses, it may be that the goals within a competitive market should be diversity, product differentiation and customer choice. It is for consideration whether this is the appropriate time to reduce or eliminate prescriptive regulatory standards in the supply markets.
- 8.8 There appear to be four possible options with regard to the future of standards in electricity and gas supply:
- ◆ the setting of regulatory standards for all suppliers in electricity and gas;

- ◆ the setting of regulatory standards for those suppliers that are dominant in the electricity or gas supply markets;
- ◆ the removal of existing standards in electricity and gas and reliance on the competitive market; or
- ◆ allowing suppliers to set their own standards, in codes of practice, as licence conditions.

8.9 When considering the future application of standards in the electricity and gas supply markets it is necessary to note that whilst it is desirable to withdraw from direct regulation as competition develops, the Authority's principal objective under the Utilities Act is to protect the interests of consumers, through promoting competition and regulating monopolies. It is for discussion as to which of these options would better protect consumers' interests.

i) regulatory standards for all electricity and gas suppliers

8.10 Those existing guaranteed and overall standards which are relevant to supply activities (which are outlined in Chapter 3) could be retained in electricity and extended to cover gas suppliers.

8.11 However, whilst the standards of performance in electricity supply have been sufficiently flexible to take account of differences between the PESs, the regulator's setting of prescriptive standards connotes a system of essentially common, national standards. It is open to debate whether such a set of common, national standards would be appropriate for such a wide variety of electricity suppliers. Apart from the administrative resources that might be required to monitor compliance, the costs of implementing the standards themselves could constitute a barrier to entry and therefore hinder the further development of competition.

ii) regulatory standards for dominant electricity and gas suppliers

8.12 It is for consideration whether, in a competitive supply market, prescribed standards of service should apply only to those suppliers who are deemed to be dominant within the market. Such an approach could be considered desirable as dominant suppliers may not have sufficient incentives to develop innovative

service packages and therefore their customers should be assured of certain service standards. It could be argued that this would not be an unduly onerous requirement to place on dominant suppliers, particularly since the PES supply businesses and BGT, who are presently dominant in their specified markets already have obligations to meet certain standards.

- 8.13 However, in a competitive supply market it could be argued that the position of a supplier within the market could change quite rapidly. Dominant suppliers could cease to be dominant relatively quickly and other suppliers could achieve a position of dominance with similar speed. It is for consideration whether such an approach would be able to adapt quickly enough to take account of this. Suppliers who are no longer dominant could be forced to adhere to prescribed levels of service, whilst a newly dominant supplier could, in theory, offer no service standards at all. Conversely, if the application of standards was to be as relevant as possible at all times then considerable resources might have to be devoted to constantly reviewing the market to determine dominance.
- 8.14 If this approach were adopted, standards would only apply in relation to the dominant supplier's customers who are within that specified geographic market and are being supplied with that certain fuel. For example, if an ex-PES supply business was deemed to be dominant in supplying electricity within its old supply service area then any prescribed standards set by the Authority would only apply to its electricity customers within that area. The standards would not apply to the dominant supplier's electricity customers who live outside that area and would not apply in relation to the supply of gas at all. Furthermore, any customer within the relevant area that is being supplied on a dual-fuel contract would have prescribed regulatory standards for electricity but not for gas. Similarly, for gas, BGT customers would be covered for gas but not for any electricity that they might also purchase from BGT. Such an approach could be confusing for the customer. As one of the underlying principles of the Utilities Act, and this paper, is the alignment, where appropriate, of electricity and gas regulation, it is for consideration whether an approach such as this would be appropriate.

iii) removal of existing standards of performance

- 8.15 It may be considered that, in a competitive market, Ofgem should permit diversity rather than insisting on consistency, that suppliers should be able to offer diverse service packages and consumers should be able to choose between them rather than be restricted by wide ranging regulatory standards. Competing companies will want the freedom to develop innovative service packages and standards, and the imposition of regulatory standards might cause companies to concentrate on the criteria set by the regulator, rather than responding to signals in the competitive market. The consumer would be able to choose a supplier who offered, perhaps, fewer service guarantees, but who also offered lower prices than his competitors. If the customer was not satisfied with the level of service they would be able to transfer to a new supplier.
- 8.16 If such an approach was adopted then no standards would be set and the regulator would rely on the competitive market to ensure that the interests of consumers are protected. Whilst there is merit in this approach it is for consideration whether competition in electricity and gas supply is sufficiently developed for the removal of standards of performance and reliance on the competitive market to be in the best interests of the consumer.
- 8.17 Since the opening of the competitive gas and electricity markets there has been a relatively small, but nevertheless disturbing, number of cases in which customers have been transferred to a different supplier when they did not wish to. Erroneous transfers of this sort can arise from mistake or from marketing malpractice. A feature of these cases has been the considerable amount of time and effort that complainants have had to devote to securing a return to their original supplier.
- 8.18 It is for consideration whether it might be appropriate to set standards on suppliers relating to erroneous transfers. Guaranteed and/or overall standards could be set to incentivise suppliers to take prompt action to rectify erroneous transfers. The setting of a guaranteed standard would also provide some compensation for customers for the inconvenience they are likely to suffer. However, there are a number of potential difficulties in setting standards for the correction of erroneous transfers that may need to be considered. One potential

difficulty is that erroneous transfers can result for a wide range of reasons. For example, the transfer may have been the result of an administrative error by a supplier (such as the incorrect inputting of a postcode or meter point administration number), customer confusion or error, or as a result of marketing malpractice.

- 8.19 It could also be argued that any standard relating to erroneous transfers would overlap with the existing marketing licence conditions and may not be necessary. Whilst the existing marketing licence conditions have a role to play in relation to erroneous transfers, particularly in relation to erroneous transfers that result from marketing malpractice or administrative error, they do not require companies to take immediate and appropriate action and they do not compensate the customer for the inconvenience they are likely to suffer. As there is often considerable inconvenience to customers, it may be considered appropriate to introduce a guaranteed standard in this area so that customers whose erroneous transfers are not corrected within a prescribed timescale will receive compensation. Ofgem would welcome views on this issue.
- 8.20 Another potential difficulty is that erroneous transfers inevitably involve two suppliers, the new supplier and the old supplier. There is a question as to on whom the standard should fall, the new supplier, the old supplier, or both? Initial thoughts might favour placing the standard on the new supplier, particularly in situations where the erroneous transfer has occurred through their error/malpractice. However, the situation is complex. For example, the new supplier may have taken all reasonable action to rectify the erroneous transfer within the prescribed timescale, but failed to do so due to a failure by the old supplier to re-register the customer. Correction of erroneous transfers requires the co-operation of both the old and the new supplier. Ofgem would welcome views on this issue.
- 8.21 It may also be considered appropriate to ensure that consumers receive suitable protection in respect of their reconnection to the system following disconnection for non-payment. At present, there is an overall standard on the PESs to reconnect customers before the end of the working day after they have paid or made arrangements to pay. It may be desirable to continue this standard in electricity and to extend it to gas. If such a standard was introduced then it

might be considered appropriate to set equivalent standards for electricity distributors and gas transporters, which would require them to reconnect premises within a certain timescale. Ofgem would welcome views on these issues.

iv) allowing suppliers to set their own voluntary standards

- 8.22 Instead of legally binding standards, set by the regulator, it might be more appropriate to allow suppliers to set their own, voluntary standards, perhaps in consultation with the GECC. Such an approach could give customers a wider choice of price/service packages than are currently available and could increase entry into the market. The Gas Consumer Council has already done some work on voluntary standards and Ofgem would be particularly interested to receive their views, and the views of other consumer bodies on these issues.
- 8.23 It could be appropriate for a licence condition to be included in the electricity and gas supply licences which would require licensees to set their own standards and comply with them, and to publish details of those standards and their performance against them (possibly in a code of practice). If such licence obligations were adopted then this would enable enforcement action, under section 25 of the Electricity Act 1989 and section 28 of the Gas Act 1986 to be taken in respect of breaches, similarly the Authority would be able to impose financial penalties on licensees, under section 27A of the Electricity Act and section 30A of the Gas Act. Such an approach would allow flexibility as to the content of the standards, but would place an enforceable obligation on licensees. The ability to take enforcement action and/or impose financial penalties might be considered to be appropriate in relation to certain issues, such as erroneous transfers or reconnection following disconnection for non-payment.

Additional standards

- 8.24 It might be considered appropriate to set a number of prescribed standards which relate to the Social Action Plan. Alternatively it may be that the new standard licence conditions on the Social Action Plan and the codes of practice produced in accordance with the Plan will provide adequate protection. Ofgem would welcome views on this issue.

8.25 Under the Utilities Act, the Authority must have particular regard to: the disabled and chronically sick; those of pensionable age; those on low incomes; and those residing in rural areas. It could be argued that it is often customers within these groups who are less familiar with the options and methods for changing supplier and who may therefore require protection regardless of the development of competition. It might therefore be considered appropriate to retain some prescriptive standards for specific customer groups, such standards could cover the provision of information on the operation and benefits of the competitive market in this area. However, it could be argued that the issue is actually a lack of customer information and not one of standards of service. It may, therefore, be more appropriate for the Authority and/or the GECC to take steps to improve customers' knowledge of the benefits of the competitive market and the procedure for transferring supplier, rather than the adoption of inappropriate standards.

Proposals

8.26 Ofgem invites views on the issues discussed above, in particular whether statutory standards are necessary in the competitive supply market, and the desirability of introducing new standards relating to the Social Action Plan, erroneous transfers and reconnection following disconnection for non-payment.

9. The future of standards in electricity and gas metering

Existing standards

9.1 In electricity, a number of the existing guaranteed and overall standards are concerned with metering services. Performance against these targets was discussed in Chapter 3:

- ◆ providing supply and a meter (GS3);
- ◆ responding to meter problems (GS5);
- ◆ responding to pre-payment meter faults (GS11);
- ◆ visiting to move the meter, when asked to do so (OS5);
- ◆ changing meters, when necessary to do so, on a change of tariff (OS6);
and
- ◆ obtaining a firm meter reading (OS7).

9.2 In relation to gas, there are a number of BGT's standards of service which relate to metering. These include: appointments for final meter reading or clearance and special meter reading or clearance at the customer's request; the frequency of meter reading; visiting premises where there is a defective or full meter, and estimating procedure for the repositioning of a meter. Performance against these standards is discussed in Chapter 4.

Responsibility for metering standards

9.3 In considering whether it is appropriate to set standards in relation to metering, it is necessary to consider on whom any such standards should be placed.

9.4 In electricity, standards that relate to metering, including the provision of a meter, responding to faults and meter reading currently rests with the PESs. However, with the separation of the PES businesses and the introduction of competition in metering and data services, consideration will need to be given as to on whom any metering standards should be placed. In gas, the current

standards that exist in relation to metering are placed on BGT, the supplier, rather than Transco.

- 9.5 It could be argued that, as electricity distributors and gas transporters have obligations to provide and maintain meters, metering standards should be placed on the distributors and transporters themselves, rather than on the supplier. However, the supplier is the company that the customer has contracted with, and who is responsible for providing their energy supply (this includes the provision of ancillary services, such as metering). The supplier is, and should be, generally, the customer's point of contact and it is important that this is recognised.
- 9.6 Electricity distribution and gas transportation are monopoly businesses which should be subject to guaranteed and overall standards. Competition has developed in the supply markets and in Chapter 8 Ofgem is consulting on whether it is appropriate to set guaranteed and overall standards in the competitive supply market.
- 9.7 However, the current status of metering is somewhere between monopoly and supply. In electricity, although some of the PES businesses have been de-appointed as meter reading service providers within their areas, it appears that independent agencies have not yet developed a full range of metering services and the PESs remain dominant. The PESs also remain dominant in the provision of meters. Similarly, in gas, public gas transporters have *de facto* monopolies in the provision and operation of gas meters and provide meter reading services to the majority of shippers.
- 9.8 Therefore, whilst competition in the electricity and gas supply markets has developed considerably, to the point where consideration needs to be given to whether prescribed regulatory standards remain appropriate, it is appropriate to consider the future application of metering standards separately. Metering should, in time, develop as a fully competitive activity, at which point it would be necessary to reconsider the future application of standards in metering, but in at present, Ofgem believes that the additional protection that standards provide for consumers, is necessary in metering. Therefore, Ofgem proposes that

guaranteed and overall standards should, at present, be set on electricity and gas suppliers in relation to metering.

- 9.9 It could be argued that setting guaranteed and overall standards on suppliers, will inhibit innovation and stifle the further development of competition. For example a standard on the frequency of meter reading could inhibit the further creation of innovative packages such as TXU's Stay Warm tariff or AMR (Automatic Meter Reading), unless suitable exemptions were applied. However, the setting of minimum standards of service could actually encourage such innovation, with companies offering service levels over and above the prescribed standards in order to increase their market share.
- 9.10 Ofgem believes that there is a good case, at present, for setting a suite of standards that cover metering as a whole. A number of metering standards are already in operation in electricity and gas (which were discussed in Chapters 3 and 4) and these could be adopted in both electricity and gas. Any standards would need to be reviewed as metering technology and competition in metering develop.

Future standards

- 9.11 Companies are increasingly using pre-payment meters (ppms) to supply domestic customers. Market research carried out on behalf of OFFER suggested that, while 95% of electricity ppm customers were satisfied with that form of metering, 30% of ppm customers had experienced problems with their meter over the 12 months preceding the survey. In 1998, the Director General of Electricity Supply introduced GS 11 (Responding to prepayment meter faults). Ofgem considers that there is a good case for retaining this guaranteed standard, and for extending it to gas metering. The standard is particularly important as prepayment meters are more likely to fail than are credit meters, and therefore are more likely to leave the customer off supply. In addition to this, many ppm customers are unable to switch and therefore require additional protection. As a high number of ppm customers belong to disadvantaged groups, the introduction of a such a standard in relation to ppms will also be helpful to the achievement of Social Action Plan objectives.

- 9.12 Any standard has to be aimed at providing the appropriate level of service without being unduly burdensome for the licensee. In view of this it may be appropriate to consider the splitting of any standard on responding to ppm faults into two different standards. This would allow different standards to be set in regard to different situations. For example, some meter faults are unlikely to interrupt supply and therefore a high response time may be unduly onerous. However, a particular problem in relation to ppms is a fault which prevents the customer from putting credit onto the meter (such a fault will interrupt supply once the existing credit has been extinguished). Ofgem invites views on whether it might be appropriate to set different standards in respect of those ppm faults which threaten supply and those that do not.
- 9.13 It is for consideration whether a similar split would be appropriate in relation to ordinary credit meters. However, it would be difficult to determine whether or not the supply was actually at risk and therefore any such standard in relation to credit meters would simply have to relate to whether the supply was on or off.
- 9.14 It may be that not all customers have strong views about the frequency with which their electricity and gas meters are read. Some might be content with an annual reading, while others might be of the opinion that they pay for quarterly meter readings, and should therefore receive that service.
- 9.15 Market research previously carried out for OFFER revealed that 24% of the customers sampled considered that companies should always read the meter before sending a bill. Although PES performance in terms of regular meter reading has improved markedly since the early 1990s, Ofgem has to consider the performance of new entrants to the supply market. Ofgem is of the view that a standard on the frequency of meter reading has a place for the foreseeable future. However, it could be argued that such a standard could be a barrier to the introduction of innovative tariffs, such as TXU's 'Stay Warm' tariff and the introduction of AMR, unless suitable exemptions could be put in place.

Proposal

- 9.16 In the longer term, there is scope for considerable technical innovation in terms of sophisticated metering equipment and associated services. Those services could go considerably beyond the ambit of electricity and gas supply. Choice of

metering technology will be a key element in determining what those services might be. At some point, therefore, there will be a balance to be struck between the protection afforded by standards of performance and the need to avoid barriers to entry and to technological innovation. This is a priority area for Ofgem to keep under review, but it is too early to predict when the existing metering standards may have to change. The present aim should be to set standards that give sufficient protection to customers, but that do not constitute a barrier to entry.

9.17 Ofgem believes that it is correct for metering standards to be placed on suppliers. Whilst electricity distributors and gas transporters may continue, in the short to medium term, to operate the majority of metering services the requirement that they do so in a manner which would enable the supplier to meet the prescribed standards should be the subject of the service agreements which will be put in place between the two companies. However, it is for consideration whether it would be appropriate, at present, for complimentary standards to be placed on the monopoly businesses of electricity distribution and gas transportation, to ensure that appropriate action is taken to meet the standard. Views are invited on these issues.

i) guaranteed standards.

| No. | Service | Required Performance | Payment |
|-----|--|---|----------|
| 1 | Providing supply and meter | Arrange and keep an appointment within 2 working days for domestic customers and 4 working days for non-domestic customers. | £20/£100 |
| 2 | Responding to meter problems | Visit within 7 working days or substantive reply within 5 working days. | £20 |
| 3 | Making and keeping appointments on metering business | A morning or afternoon appointment, or a timed appointment if requested by the customer | £20 |
| 4 | Responding to prepayment meter faults | Attend within 3 hours on weekdays and 4 hours at weekends. | £20 |
| 5 | Appointments for final meter reading or clearance | Morning or afternoon appointments (at two days' notice) for final meter reading or clearance. | £20 |

| | | | |
|---|--|--|-----|
| 6 | Special meter reading or clearance, at the customer's request. | Visit within three working days of request. Morning or afternoon appointments to be agreed, as required. | £20 |
| 7 | Notifying customers of payments owed under the standards | Write to the customer and make payment within 10 working days. | £20 |

ii) Overall standards

| No. | Service | Required Performance |
|-----|---|--|
| 1 | Visiting to reposition the meter, when asked to do so by the customer | 15 working days following acceptance and payment of quote |
| 2 | Changing meters when necessary on change of tariff. | Within 10 working days of a domestic customer's request, in all cases. |
| 3 | Obtaining a non-estimated meter reading for all domestic and business customers at least once every 2 years | 98% of properties |
| 4 | Responding to prepayment meter faults: within 3 hours on weekdays within 4 hours at weekends | 98% 95% |

10. The future of standards and network connections

Existing standards

- 10.1 Under the Utilities Act, the duty to connect customers to the network rests with the electricity distributor in relation to electricity and with the gas transporter in relation to gas.
- 10.2 At present, the following guaranteed and overall standards of performance set for the PES businesses relate to:
- ◆ the estimation of charges for connection (GS4); and
 - ◆ connecting new tariff premises to the distribution system (OS3).
- 10.3 Performance against these standards is discussed at Chapter 3.
- 10.4 Under the Utilities Act, which inserts sections 33AA and 33BA into the Gas Act, the Authority will be able to set guaranteed and overall standards in relation to gas transporters. At present, Transco is subject to a number of connections service standards, which relate to the provision of quotations for network connections. These standards are contained in an order made by the Director General of Gas Supply in February 1999, under section 28(1) of the Gas Act. The standards combine features of guaranteed and overall standards, in that Transco is not required to make compensation payments to customers until it has failed to achieve a certain overall performance level. The amount of compensation will also increase dependant on the length of time that is taken to provide a quotation and the overall percentage performance. A number of these standards are set out in the table below, in which 'D' represents the day of the request for a quotation. Transco also introduced a voluntary standard to cover instances when a quotation request has been received but has not been entered onto Transco's system (and therefore will not be monitored by Transco's computerised quality system). In addition, Transco has also agreed to pay additional compensation payments to customers whose quotations have been outstanding for 30 days, following receipt.

| Work Area | Standard of Service | National Plan Performance Level | Stage 1 Liability Payment | Stage 2 Standard of Service | Stage 2 Liability Payment |
|---|---------------------|---------------------------------|---------------------------|-----------------------------|---------------------------|
| One-off quotations ⁴¹ < 73,2000 kwh (Desktop) | D + 3 | 90% | £30 | D + 10 | £40 |
| One-off quotations < 73,200 kwh (Requiring a site visit) | D + 8 | 90% | £30 | D + 15 | £40 |
| Single connection ⁴² quotations > 73,200 kwh (Not requiring reinforcement) | D + 8 | 90% | £50 | D + 15 | £65 |
| Single connection quotations > 73,200 kwh (Requiring reinforcement and a site visit) | D + 12 | 90% | £50 | D + 25 | £65 |
| Quotation for new housing (Multiple supply meter points) | D + 15 | 90% | £50 | D + 25 | £65 |
| Initial land enquiry by a PGT | D + 5 | 90% | £30 | D + 15 | £40 |
| Initial self lay enquiry | D + 5 | 90% | £30 | D + 15 | £40 |
| Quotation to connect a self lay pipe (Not requiring reinforcement) | D + 8 | 90% | £50 | D + 15 | £65 |
| Quotation to connect a self lay pipe (Requiring reinforcement) | D + 12 | 90% | £50 | D + 25 | £65 |

10.5 Where, for example, Transco is failing to meet the overall target of providing 90% of one-off, desktop quotations within D + 3 days, any consumer whose quotation is delayed longer than three days becomes entitled to a £30 compensation payment. However, if 94% of one-off, desktop quotations were completed within D + 3 days then a customer whose quotation took 5 days would not receive a compensation payment. Similarly, if Transco were currently failing to achieve 90 per cent of quotations by D + 10 days, any customer whose quotation took longer than 10 days would receive a £40 compensation payment.

10.6 The two-stage penalty system and the link between overall performance and entitlement to a compensation payment renders the existing scheme complex. From the customer viewpoint, the link to overall performance can lead to uncertainty over when they are entitled to a compensation payment. It could also be argued that the system is inequitable as some customers whose quotation is delayed beyond the specified time will receive compensation payments whilst others will not.

Future standards

- 10.7 Ofgem believes that it is appropriate to convert Transco's existing standards into guaranteed and overall standards, to be set for all licensed electricity distributors and gas transporters. The conversion of Transco's standards would require the standards to be simplified, and in particular would require the current link between individual and overall performance to be severed.
- 10.8 In addition, Ofgem proposes that guaranteed and overall standards should be set for electricity distributors and gas transporters that requires a connection to be completed within a specified timescale, following the acceptance of a quotation and the payment of any sums payable under section 11 of the Gas Act or section 20 of the Electricity Act (as amended by section 47 of the Utilities Act).
- 10.9 It is for consideration whether companies should be required to complete the connection within 60 working days of the acceptance of a quotation (and the payment of any sums required by the distributor or transporter under legislation). A standard of 60 working days would accord with the draft standard licence conditions that require connections to be made within 3 months of acceptance.
- 10.10 Alternatively, it might be appropriate to set a shorter timescale. It could be argued that 60 working days is generally too long, as the majority of connections are simple and should take no more than 30 days to complete, whilst there may on occasion be genuine reasons why a connection cannot be completed within 30 days, this could be addressed through a suitable exemption. Ofgem would welcome views on this issue.
- 10.11 Given the complexity that can attend larger connections, it might seem sensible to limit such a standard to smaller premises. However, under the Utilities Act the concept of 'tariff supply' will disappear, and therefore consideration will need to be given to where the cut-off should be. There may be a case for limiting any new standard by reference to an expected consumption threshold. The 12,000 kwh per year currently used to define 'designated customers' in electricity supply might be an appropriate level. However, in July 2000, Ofgem

⁴¹ A One-off quotation relates to the connection of single premises.

⁴² A single connection quotation can cover a number of premises.

consulted on the future definition of small customers in electricity and gas⁴³. That paper proposed that the existing electricity definition of a 'designated customer', be removed from electricity licences (the existing definition of the equivalent 'domestic customer' in gas has been removed by the Utilities Act) and that a common definition of 'small customers' be adopted to cover both electricity and gas. That consultation process has now closed and the results of that consultation will be included in the policy paper that will accompany the new version of the draft standard licence conditions which will be published shortly. It is important to note that a change of definition could affect customers' rights to compensation under guaranteed service standards. Consideration will need to be given to how the application of standards on connections should be determined and Ofgem would welcome views on this issue.

- 10.12 As existing electricity price controls do not take account of the proposed connection standards, Ofgem proposes to introduce them following the April 2004 distribution price control review. It is for consideration, whether the standards should be introduced for gas transporters, following Transco's price control review in 2002, or whether it would be more appropriate to introduce any standards in both electricity and gas simultaneously. Such an approach would allow gas transporters (other than Transco, who would already be operating the existing scheme under the section 28 order) a reasonable time to make arrangements for compliance. This would not, of course, preclude the introduction of any voluntary standards relating to connections in advance of the implementation of any proposed statutory standards.
- 10.13 In July 2000, Ofgem published 'Competition in connections to electricity distribution systems: Ofgem's proposals'. One of the proposals contained in that document was the establishment of an Electricity Connections Steering Group to advise on how to promote competition in connections. The members of this Steering Group have now been selected and an initial meeting is expected to take place in October 2000, at which the Steering Groups' terms of reference and business rules will be agreed.

⁴³ 'Categories of gas and electricity customers who should continue to benefit from certain regulatory safeguards' July 2000.

Proposals

10.14 Ofgem proposes that Transco's existing standards on quotations for network connections are converted into guaranteed and overall standards for electricity distributors and gas transporters. The suggested performance targets included in the proposals have been adapted from the current Transco standards⁴⁴. Ofgem welcomes views on the proposed standards and on the suggested performance targets laid out in the tables below⁴⁵.

10.15 The proposed standards would apply to all licensed electricity distributors and gas transporters, but would not be introduced until after the April 2004 price control review (in gas, Ofgem invites views on whether such standards should be introduced earlier, in 2002).

i) guaranteed standards

| No. | Service | Required Performance | Payment |
|------------|---|-----------------------------|----------------|
| 1 | Desktop quotation for connection of single premises (< 73,2000 kwh - gas) (LV – electricity) | 4 working days | £40 |
| 2 | Quotation, requiring a site visit, for connection of single premises (< 73,200 kwh- gas) (LV – electricity) | 9 working days | £40 |
| 3 | Quotation for a single connection (no reinforcement or site visit) (> 73,200 kwh – gas) (< EHV – electricity) | 9 working days | £50 |
| 4 | Quotation for a single connection (requiring reinforcement) (> 73,200 kwh – gas) (< EHV – electricity) | 13 working days | £50 |

⁴⁴ It is important to recognise that the suggested performance targets for network connections included in these proposals may have lost their relevance by 2004, and could therefore be subject to revision.

⁴⁵ It is important to note that the Authority has the power to set different performance targets for different licensees, provided that no licensee would be unduly disadvantaged by the setting of different performance levels.

| | | | |
|----|---|------------------|------|
| 5 | Quotation for connection of multiple premises, not requiring reinforcement | 11 working days | £50 |
| 6 | Quotation for connection of multiple premises, requiring reinforcement | 14 working days | £50 |
| 7 | Completion of connection work after acceptance (and payment of any sum under section 11 of the Gas Act and section 20 of the Electricity Act) | [] working days | £100 |
| 8 | New housing enquiry | 16 working days | £50 |
| 9 | Initial self lay enquiry | 6 working days | £30 |
| 10 | Quotation to connect a self-lay pipe (not requiring reinforcement) | 9 working days | £50 |
| 11 | Quotation to connect a self-lay pipe (requiring reinforcement) | 13 working days | £50 |
| 12 | Initial land enquiry | 6 working days | £30 |

ii) overall standards on connection

| No. | Service | Required Performance |
|-----|--|---------------------------------|
| 1 | Desktop quotation for connection of single premises (< 73,200 kwh - gas) (LV connection - electricity) | 3 working days in 90% of cases |
| 2 | Quotation, requiring a site visit, for connection of single premises (< 73,200 kwh - gas) (LV connection - electricity) | 8 working days in 90% of cases |
| 3 | Quotation for a single connection (no reinforcement or site visit) (> 73,200 kwh – gas) (< EHV connection – electricity) | 8 working days in 90% of cases |
| 4 | Quotation for a single connection (requiring reinforcement) (> 73,200 kwh – gas) (< EHV – connection electricity) | 12 working days in 90% of cases |
| 5 | Quotation for connection of multiple premises, not requiring reinforcement | 8 working days in 90% of cases |

| | | |
|---|--|-----------------------------------|
| 6 | Quotation for connection of multiple premises, requiring reinforcement | 12 working days in 90% of cases |
| 7 | Completion of connection work after acceptance of quotation and payment of any sums required under section 11 of the Gas Act or section 20 of the Electricity Act. | [] working days in 100% of cases |

11. Compensation payments, cost recovery, exemptions and the monitoring of standards

Adequacy of compensation levels

- 11.1 This paper has not proposed increases to existing compensation payments, except where such increases are necessary in order to align the application of guaranteed and overall standards in electricity and gas. The extension of such standards to gas and electricity undertakings other than Transco, BGT and the PESs will constitute a major change for the two industries. In the light of this, Ofgem does not consider that it would be appropriate to introduce any significant increases to the current payment levels at this time. However, the option does remain of adjusting payment levels later, if necessary and appropriate.
- 11.2 Although payments under the standards are described as compensation, they do not necessarily compensate fully. A fixed payment may be greater or less than the customer's actual loss. Payments should generally be set at a level that reflects the inconvenience suffered by the customer, higher payments might:
- ◆ increase the risk of bogus claims;
 - ◆ encourage companies to dispute borderline cases;
 - ◆ blur the distinction between the distinct purposes of compensation payments and financial penalties under sections 59 and 95 of the Utilities Act⁴⁶.
 - ◆ have a punitive effect that might be inappropriate in the case of isolated lapses; and
 - ◆ deter customers from mitigating the damages arising from any relevant incident.
- 11.3 While recompense for the customer is important, an equally significant purpose of compensation payments is to focus the mind of management teams on the

causes for failure, and create an incentive for the development of management information systems and procedures likely to improve the overall level of customer service. Ofgem considers that this objective can be achieved, at present, without a general increase in the level of compensation payments under the guaranteed standards.

Cost recovery

- 11.4 Business separation means that electricity distributors and gas transporters will have to make any compensation payments to customers via suppliers (and in gas, through shippers and suppliers). Therefore, shippers and suppliers should have an obligation to pass on any such compensation payments to the customer. Such an obligation could be included in licence conditions, such licence conditions currently exist in gas. Alternatively, an obligation on suppliers and shippers to pass on any compensation payments that they receive from electricity distributors or gas transporters could be contained within the regulations made under sections 39A and 40A of the Electricity Act or sections 33AA or 33BA of the Gas Act. Ofgem would welcome views on this issue.
- 11.5 As suppliers are to be the primary customer interface, they may incur costs in identifying affected customers, submitting claims on their behalf, and handling initial and subsequent enquiries and complaints. It is for consideration as to whether it might therefore be appropriate to allow suppliers (and shippers) to recover any reasonable costs incurred during this process.
- 11.6 Two electricity consumer councils have suggested that suppliers should be obliged to make such payments within ten working days, even if they have not received the requisite funds from the distributor. While this proposal has some attraction, it could have adverse cash-flow implications for a small supplier. Ofgem's present view is that the approach outlined in the proposed new standard condition 51, to make payment 'as soon as reasonably practicable after its receipt by the licensee...' is the preferred one. Similarly, Ofgem would adopt such an approach in the regulations, if it was decided that the obligation to pass compensation payments to customers should be included in the regulations.

⁴⁶ Ofgem is consulting separately on the application of financial penalties, including their purpose in respect of standards of performance.

Exemptions

- 11.7 The existing exemptions to the Electricity (Standards of Performance) Regulations, which are contained in Regulation 15 have generally worked well. However, there are two areas in which Ofgem proposes to use the new regulations to improve clarity and comprehensibility.
- 11.8 GS 2 currently requires restoration of supply after a fault, within 18 hours. Some PESs have sought to claim an exemption on the grounds that the supply outage resulted from severe weather conditions. This is to misunderstand the purpose of the exemption. It is not the cause of the outage that is relevant, but rather the reason why reconnection could not be effected within the required 18 hours. The exemption takes effect (under Regulation 15 (6)(a)) where severe weather conditions meant that it was not reasonably practical to take the action required by the regulation. To give a practical example, a severe electric storm might cause an outage, but that fact would not trigger the exemption. If, however, severe electric storms were to continue, over the 18-hour period, to the extent that it would not be safe for industrial staff to climb wood poles and steel towers to carry out work on the affected circuits, the exemption would be triggered. Ofgem intends to re-draft Regulation 15, to make this clearer. Ofgem considers that this mechanism should be specified in the relevant regulations.
- 11.9 There has also been misunderstanding of GS 10 (Notifying customers of payments owed under the standards). The intention of this standard is to create an incentive for companies to put procedures in place whereby breaches of the standards will be identified, and payments made. Some PESs have argued that a payment is not due under the standard if their staff failed to recognise that there had been a breach. That defeats the purpose of the standard. Ofgem intends to re-draft the regulation, making it clear that the payment is due under GS 10 in all cases of failure to notify, except where there is a bona fide dispute, either with the customer, the Authority or the GECC, as to whether there has been a breach.

Monitoring the standards

- 11.10 Ofgem's present view is that it might be appropriate for compliance with standards of performance to be independently monitored. It could be argued that independent audit of the licensee's mechanisms for monitoring and

reporting on their performance against guaranteed and overall standards is of key importance in ensuring the effective operation of the standards. Whilst this has been achieved, to a degree, with the existing electricity standards, it could be argued that such measures are increasingly important in view of the extended application of guaranteed and overall standards under the Utilities Act. Ofgem invites views on this issue. If such measures are considered necessary, consideration will need to be given as to whether an obligation should be placed on licensees through licence conditions or whether it would be more appropriate to include any such obligations in the regulations.

12. Stakeholders

Introduction

- 12.1 The guaranteed and overall standards of performance have implications for many stakeholders. Ofgem is therefore keen to have comments on this consultation from a wide range of organisations. In this section of the paper, we have set out whom we regard as the principal stakeholders, and, where appropriate, we have highlighted specific points on which it would be helpful to have comments from particular organisations.
- 12.2 Ofgem is committed to an open, consultative style of regulation. A press release will accompany the publication of this consultation paper, and we should welcome comments from any individual or organisation on the issues discussed here.

The gas and electricity industries

- 12.3 We are seeking views from public electricity suppliers (PESs), second-tier electricity suppliers, gas transporters, gas shippers and gas suppliers (both domestic and industrial and commercial).
- 12.4 We should be particularly interested to receive the views of industry players on the proposals in this document, and particularly on:
- ◆ whether standards for supply activities are necessary;
 - ◆ alignment of gas and electricity standards;
 - ◆ implications for competition in supply; and
 - ◆ the proposed policy on standards in metering and connections.

Consumer representatives

- 12.5 The perceptions of the customer on their experience in the competitive gas and electricity markets is a key element of information in the decision-making process. Energy consumer representation is in a transitional stage, pending the formal establishment of the GECC. We are consulting with the Gas Consumers'

Council, the electricity consumers' committees, and the task force responsible for setting up the GECC.

12.6 We should particularly welcome comments from consumer representatives on:

- ◆ the degree of protection that standards presently afford, as compared with the proposals in this document;
- ◆ alignment of standards in electricity and gas;
- ◆ encouraging suppliers to set their own standards; and
- ◆ the policy on the level of compensation payments.

Department of Trade and Industry (DTI)

12.7 The DTI is closely concerned in implementing the changes that the 2000 Act will bring about in the electricity and gas industries. The standard licence conditions, which have some interrelation with standards of performance, are for the Secretary of State to determine. Moreover the standards have some implications for the social aspects of the statutory guidance on social and environmental matters that the Secretary of State will be issuing. We welcome the DTI's views on these aspects of the consultation, in particular.

13. Future action

Handling of responses.

- 13.1 In accordance with our normal practice, we intend to make responses to this consultation publicly available, through the Ofgem Library. However, if asked to do so, we shall respect the confidentiality of any response. Respondents wishing their responses to remain confidential should clearly mark the documents to that effect.
- 13.2 It is Ofgem's expectation that the Authority will issue a consultation paper on the future application of standards in electricity and gas early in 2001. The Utilities Act requires that the Authority consult the GECC and other parties, including the relevant licensees before setting guaranteed and overall standards of performance. The Authority is likely, in preparing any such consultation, to have regard to any comments made in response to this paper.
- 13.3 Ofgem would welcome views on its proposals for the future application of standards on the network businesses of electricity distribution and gas transportation, and on those companies active in the competitive electricity and gas supply markets. Those proposals include:
- ◆ the retention of the current regime of guaranteed and overall standards in electricity distribution and the extension of the regime to gas transportation;
 - ◆ four options for the future of standards of service in the competitive supply market: the setting of regulatory standards for all suppliers in electricity and gas; the setting of standards only for those suppliers that are dominant in those markets; reliance on the competitive market with no set standards; or requiring suppliers to set their own standards, in codes of practice, under licence obligations;
 - ◆ the setting of guaranteed and overall standards of performance on suppliers in relation to metering; and

- ◆ the setting of guaranteed and overall standards on electricity distributors and gas transporters in relation to network connections.

13.4 In addition, Ofgem would welcome comments on any of the other issues that are considered in this paper.

Timetable for the consultation

13.5 The deadline for responses is Friday, 1 December 2000.

13.6 We currently plan to issue a further consultation document in January 2001 and to put in place the necessary regulations in Spring 2001.

13.7 Responses to this consultation should be sent to:

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