

January 2001

**Guaranteed and overall standards
of performance**

Final proposals

Executive summary

This document follows on from the Ofgem consultation document "Guaranteed and overall standards of performance" that was published in October 2000. The principal objective of the Gas and Electricity Markets Authority is to protect the interests of consumers, wherever appropriate by promoting effective competition. There are a number of ways in which regulation protects the interests of gas and electricity consumers. Licensees have to comply with other statutory obligations, with licence conditions, and with codes of practice that certain licence conditions require them to publish. Standards of performance constitute another way in which regulation protects consumers.

Standards are presently set for Public Electricity Suppliers (PESs). The Utilities Act 2000 ('the Utilities Act') will abolish the concept of a PES and will require the PES distribution and supply businesses to operate as separate legal entities, each with its own licence. The Utilities Act empowers the Authority to set guaranteed and overall standards for electricity distributors, electricity suppliers, gas transporters and gas suppliers.

Ofgem's October paper sought 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. A list of the organisations and individuals responding to the October 2000 consultation is at Annex A. We received 36 responses. Preparations for the implementation of revised standards should be complete by the end of March 2001.

In electricity distribution, the most appropriate approach is to roll forward the existing standards for ex-PES distributors for the year 2001/02. It will then be necessary to consider the implementation of new standards proposed at the last distribution price control review – including those for multiple interruptions – (which are due to be introduced from April 2002), and the relationship of the guaranteed and overall standards of performance to the Information and Incentives Project (IIP) as part of a separate project, over the course of the next year.

Transco's gas transportation price control for April 1997 to March 2002 is based on its existing standards of service and planned performance levels, including defined levels of performance for public standards of service and shipper standards of service. It would

therefore seem appropriate to consider introducing new or revised standards for Transco as part of the price control, from April 2002 onwards. Ofgem considers that, as an interim solution, the existing standards of service for Transco and other gas transporters should be retained until 31 March 2002, within the current regulatory framework. As part of the Transco price control review, Ofgem will consult on the guaranteed and overall standards of performance that should apply to Transco from April 2002. Simultaneously consultation will take place on any standards of performance that might apply to other gas transporters.

Now that competition is becoming established in gas and electricity supply, there is a strong argument for discontinuation of standards in supply. To do so would be consistent with Ofgem's declared policy of withdrawing from prescriptive regulation, as consumers are able to rely on the protection that competition affords. Ofgem therefore proposes to remove the exclusively supply-related standards at the point when the supply price controls are discontinued. From that point, it will be more appropriate to leave these aspects of customer service to the competitive market.

In fact there are only two exclusively supply-related standards in electricity supply. Ofgem proposes to remove these. Other existing standards will continue in respect of metering, and will be extended to all gas and electricity suppliers. The voluntary standards currently applying to BGT will be discontinued when Ofgem withdraws from direct price regulation (Ofgem will announce the date at which it will withdraw from direct price regulation when it releases its final proposals, in February 2001). This accords with Ofgem's objective of withdrawal of prescriptive regulation from what has become a competitive market, balanced by significant extension of formal standards in other areas where competition has yet to develop. It will leave suppliers free to develop supply packages, for a range of price options, on the basis of their commercial judgement. The existing overall standard on reconnection, following disconnection for electricity debt, will continue. A similar requirement will be imposed in respect of gas disconnections.

Ofgem concludes that metering standards should be placed on suppliers, until effective competition is established and consumers' interests are protected by the discipline of the market. Where appropriate, these standards will apply also to electricity distributors and Transco, who are currently in a dominant position in the provision and maintenance of meters.

We propose that the existing gas connection standards should remain in force, until the report of the Electricity Connections Steering Group is available to inform further consideration of both gas and electricity connection work.

Ofgem believes it to be appropriate for gas transporters to make any compensation payments under standards of performance through suppliers and shippers. Similar arrangements are already in place between electricity distributors and suppliers.

This paper seeks views on the more detailed aspects of the standards to be set in place in respect of metering. The deadline for responses to this consultation is Friday, 2 March 2001.

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1. Introduction

Purpose of this document

- 1.1 This document follows on from the consultation document “Guaranteed and overall standards of performance” that Ofgem issued in October 2000. It summarises the responses to that consultation, sets out the policy decisions that Ofgem has subsequently taken, and invites comments and suggestions on more detailed aspects of the guaranteed and overall standards of performance.
- 1.2 At present the Electricity Act 1989 (‘the Electricity Act’)¹ provides for the Authority 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’)² contains a similar provision, which empowers the Authority 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. Gas regulation 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 (energywatch) and other persons, including the relevant licensees, before prescribing or determining standards of performance. Ofgem has sought 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

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

² As amended by the Competition and Services (Utilities) Act 1992.

markets. To the extent that revised performance standards will be required, preparations for their implementation should be complete by the end of March 2001.

- 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 consumers. For example, Ofgem has recently produced proposals, on information and measurement, for an information and incentives project for electricity distribution businesses³ which has specified a number of service outputs that these companies will be financially incentivised to deliver. Further proposals⁴ were published on 18 January 2001. Service standards are also included in licence obligations and in industry agreements.
- 1.5 In considering the future application of standards of performance in the electricity and gas industries it is helpful 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 prescriptive regulation as competition develops. Therefore a key factor in considering the future application of standards has been the extent to which competition has developed within the electricity and gas markets. 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 suggests where the standards of performance arrangements in the electricity and gas industries should be aligned.

³ 'Information and Incentives Project: Output measures and monitoring delivery between reviews: final proposals' September 2000.

⁴ Information and Incentives Project: Incentives Schemes – Initial Thoughts (January 2001)

Structure of the document

- 1.7 For ease of reference, and so that this document presents a comprehensive picture, Chapter 2 largely repeats the background information originally presented in the October 2000 consultation. Similarly, Chapters 3 and 4 give information on the existing performance standards in the electricity and gas industries respectively. Chapter 5 introduces the responses to the October 2000 consultation. Chapters 6 to 10 follow a common format. Each deals with standards in a particular business and:
- sets out the initial proposals in the October 2000 consultation;
 - summarises the responses to consultation;
 - discusses the various options; and
 - makes revised proposals.
- 1.8 Chapter 11 considers the mechanism for making compensation payments to consumers. Chapter 12 sets out the action that we intend to take after completion of this consultation.

Timetable

- 1.9 The deadline for responses to this consultation is Friday, 2 March 2001. They should be sent to:

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Contacts

- 1.10 Should you have any questions regarding this document, Arthur Cooke on 020-7901-7297, or Lisa Vango on 020-7901-7178, would be pleased to assist you.

Confidentiality

- 1.11 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 electricity regulator (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 consumers 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 electricity regulator 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 consumers. The standards cover a wide range of services relating to supply, distribution and metering services. They were first set, by the Director General of Electricity Supply, 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 consumers in general have a right to expect companies to deliver predetermined, minimum levels of service.

Gas

i) legal background

2.5 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 gas regulator (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 gas regulator to determine overall standards of performance for gas suppliers.

ii) policy background

2.6 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.

2.7 In the event, following the introduction of statutory powers to set standards of performance in gas, the former gas regulator 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.

2.8 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 consumers, relating to:

- ◆ the supply of gas;
- ◆ ascertaining the quantity of gas supplied; and

- ◆ recovery of gas charges.

2.9 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, the provision of alternative heating and cooking facilities, 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 Director General of Gas Supply 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

2.10 The Utilities Act makes significant changes to the arrangements currently in electricity and gas. It provides, 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.

2.11 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.

3. Electricity – existing standards

Guaranteed standards of performance

3.1 The following table summarises the guaranteed standards of performance currently applying in electricity distribution and supply:

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 consumers and 4 working days for non-domestic consumers.	£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	Consumers 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 consumers' 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 consumers 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 has published annual reports on services for electricity consumers, giving full details of performance against the standards. In future, this will be a role for energywatch. The October 2000 consultation paper summarised performance against these standards.

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 consumers 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.	
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 consumers 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 set⁵.

Distribution and supply

3.5 The Utilities Act abolishes the concept of a PES and requires the legal separation of the PES electricity distribution and supply businesses. Separate standards will

⁵ Information on individual PES' performance against overall standards was also included in the OFFER annual reports on standards of service for consumers, which are referred to in paragraph 3.2.

be required for distributors and suppliers. It is 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.

No.	Service	Required Performance	Payment
1	Responding to failure of a supplier's ⁶ 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	Consumers 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 consumers 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

⁶ 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.

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 a helpful safeguard for consumers.

- 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 2000⁷ and now requires that supply is restored within 18 hours. This standard is related to the distribution price control and the Information and Incentives Project (IIP). It is also of particular relevance to rural consumers, to whose interests the Authority must have particular regard in discharging its duties 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 (prior to 1 July 1998 the target was 2 days) and for all other jobs within 15 days. Although metering is the responsibility of the supplier, 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 helps consumers, as such estimates can be needed when planning, or deciding whether to proceed with, other work.
- 3.10 **Notice of supply interruption (GS 5):** this standard requires that consumers are given at least 5 days notice of planned interruptions to supply. The standard has had a significant effect in improving the service to consumers. In 1993/94 there were 1,594 payments for failure to give consumers 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 to all consumers. Industrial consumers in particular will need to control their costs by identifying days on which production will be affected.

⁷ SI 2000 No. 840

- 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 required function of the distribution businesses. 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 were made in 1998/99 and 1,210 in 1999/00.
- 3.13 **Notifying consumers of payments owed under the standards (GS 10):** this standard requires that companies notify consumers of any payments that are owed to them under a guaranteed standard. As many consumers will be unaware of their entitlement to a payment under the standards, this obligation is useful. 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 have 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 mainly 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 consumers 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 important to consumers that companies organise themselves so as to be able to restore supplies promptly. Some companies have argued that the definition of these standards creates perverse incentives on the companies to increase the number of interruptions that last for a shorter period (as the standard is expressed as a percentage). These issues are best considered in the context of the review of the distribution business guaranteed and overall standards envisaged over the course of this year.

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 consumers who had received low voltage for periods of several years, with little apparent action from the company. Performance against the target is now generally of a reasonable level, and companies usually exceed the targets. This standard complements GS 6.

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.

3.18 **Responding to consumers' letters (OS 8):** the standard requires companies to respond to a set percentage of consumers' letters within ten working days. Generally, PES performance against this standard (figures include both distribution and supply activities⁸) has been good. However, there have been isolated instances of 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) relate directly to metering. Another two (GS 9 and 10) relate to it indirectly.

No.	Service	Required Performance	Payment
3	Providing supply and meter	Arrange an appointment within 2 working days for domestic consumers and 4 working days for non-domestic consumers.	£20 - £100
7	Responding to meter problems	Visit within 7 working days or substantive reply within 5 working days.	£20
8	Responding to consumers' 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 consumers 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 consumers are offered an appointment in connection with the provision of a supply and

⁸ 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, consumers will correspond directly with the distributor.

meter within 2 working days for domestic consumers and 4 working days for all other consumers. 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, for some years, been excellent. 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 consumers 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 consumers' queries about charges, and payment queries (GS 8):** this standard requires companies to reply within five working days to consumers' charges and payment queries. Since 1995/96 breaches have been recorded at the rate of approximately 200 per year.
- 3.23 **Making and keeping appointments (GS 9):** this standard requires that consumers 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 consumers.
- 3.24 **Notifying consumers of payments owed under the standards (GS 10):** this standard requires companies to notify consumers 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 prepayment meter faults within 3 hours during the week and 4 hours at weekends⁹. 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 Four of the five overall standards allocable to the supply activity are concerned with metering.

No.	Service	Required Performance
4	All consumers 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 consumers 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 consumers disconnected for non-payment (OS 4):** this standard requires that all consumers 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 consumers (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.

⁹The proposed standard licence conditions for electricity distributors include an obligation on ex-PES electricity suppliers to continue to provide prepayment 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 necessary¹⁰.
- 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. Change of tariff includes change between credit and prepayment tariffs. Most companies have, in recent years, achieved 100 per cent on this standard. 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 consumers (OS 7):** the standard requires that a firm meter reading is obtained for all domestic and business consumers 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 consumers. Indeed the meter reader and the electricity bill following his/her visit are, for many consumers, the only interface with the supplier.

¹⁰ 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 respect of which the appointment was made.

3.31 **Responding to consumers' letters (OS 8):** the standard requires companies to respond to a set percentage of consumers' letters within ten working days. Generally, PES performance against this standard (figures include both distribution and supply activities) has been good.

4. Gas – existing standards

Obligations in the gas industry

- 4.1 The existing standards of performance in the gas sector result from licence conditions, Network Code obligations, 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 gas regulator 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, the provision of alternative heating and cooking facilities, 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 consumers.

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 consumers, 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 may make discretionary compensation in respect of other standards, depending on the circumstances. 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 consumers 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 ¹¹
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
9	Gas emergencies (Transco currently undertakes this work, on behalf of other gas transporters) 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 1999, 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%). From figures submitted in November 2000 it appears set to do the same again in 2000.

- 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 consumers 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), Ofgem is considering the introduction of an overall standard on telephone response for electricity distributors. The existing Transco telephone standard could form the basis for a similar standard in relation to electricity.
- 4.10 **Replies to correspondence 1¹²:** this standard requires that, except where immediate action is required, consumers 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 consumers 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.

¹¹ References to 'Disc' mean that Transco may make discretionary payments to consumers in respect of these standards.

¹² Generally, the customer's initial point of contact will be with their supplier who would then contact Transco, if required. However, in some instances, consumers will correspond directly with Transco.

- 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, although 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 consumers 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 sector.
- 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 consumers. 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 safeguards¹³. Section C (Supply to domestic consumers) of the new gas supply licence will replace conditions 16 to 21 with a suite of standard conditions affording additional protection to smaller consumers¹⁴. 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 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 consumers'. 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.

¹³ 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.

¹⁴ Ofgem has consulted separately on what the appropriate definition of small consumers should be, for this and other purposes.

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 ¹⁵ , at least once a year.	90%
7b	Credit meter accounts (meter reading)	The company will submit gas bills based on an actual meter read ¹⁶ , 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 consumers. 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 consumers	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

¹⁵ The customer can take this meter reading.

¹⁶ This meter reading must be a company read.

14	Visits concerning unpaid bills	Where a bill remains unpaid after 13 weeks, the company's representative will visit the customer, to discuss an arrangement to pay.	95% of consumers 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 consumers
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 consumers
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 consumers	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 consumers
22	Energy efficiency (services)	Consumers to be advised annually of energy efficiency services available, and of a point of contact for further information.	100% of consumers
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 consumers to discuss debt problems.	100% of consumers 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 November 2000 indicate that the company is set to do so again in 2000.

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.

5. Responses to the October 2000 consultation, and market research

Organisations and individuals responding

- 5.1 A list of the organisations responding to the October 2000 consultation is at Annex A. We received 36 responses.
- 5.2 Responses are summarised, in the following sections of this document, in discussion of standards in the various businesses.

Market research

- 5.3 Ofgem's report 'Experience of the Competitive Market: The Domestic Electricity and Gas Markets' (January 2001), based on market research conducted by MORI for Ofgem, included consideration of standards of performance. The research found that all aspects of performance are at least 'fairly important' to consumers, but that they continuously rate continuity of supply as by far the most important aspect of performance. Although the report acknowledges that responses to market research questions of the type used in the study tend to favour the status quo, there was a clear message that standards on network performance are of importance to consumers. Indeed, 67% of respondents considered that the regulator should set minimum standards. An important aspect of service continuity was the rapid correction of prepayment meter faults.
- 5.4 These proposals reflect the importance that consumers obviously attach to supply continuity. Ofgem intends to continue (in tandem with the IIP initiative and with price control reviews) with the development of effective standards relating to network performance. Standards in respect of metering should continue, at least until we can be satisfied that competition in the metering market is sufficient to provide an appropriate level of protection.
- 5.5 The report also made it clear that consumers attach considerable importance to service providers' making, and keeping, appointments. Appointments to visit consumers' premises usually have to do with network or metering problems.

These proposals ensure that effective standards remain in place to ensure that appointment systems work well.

6. The future of standards in electricity distribution

Initial proposals

6.1 The October 2000 consultation made initial proposals in respect of distribution standards. It proposed that the following guaranteed and overall standards be put in place for electricity distributors and that they should apply to all consumers for the year 2001/02. As part of the IIP, Ofgem is developing an incentive scheme that links financial incentives to the delivery of key service outputs. It will be necessary to set up a separate, but closely related, project to the IIP, to consider the relationship between the IIP and the existing and new standards that were proposed during the last distribution price control review, and which are due to come into place from April 2002. This relationship will be considered both at an overall incentive level and at a more detailed, definitional level.

i) Guaranteed standards

New No.	Service	Required Performance	Penalty Payment
1	Responding to failure of the mains 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 ¹⁷	Estimating charges	Within 5 days for simple jobs, and 15 days for others.	£40
4	Notice of planned supply interruption	Consumers 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 consumers of payments owed	Write to the customer and make payment within 10 working days.	£20

¹⁷ This standard might, in time, be superseded by other standards relating to network connections. See Chapter 10.

8 (From April 2002) ¹⁸	A new standard covering the maximum number of interruptions per year (i.e. a worst-served customer standard) ¹	To be considered	To be considered
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ii) Overall standards

New No.	Service	Required Performance
1a	Minimum percentage of supplies to be connected, following faults, within 3 hours.	As now
1b	All supplies to be reconnected, following faults.	Within 18 hours
2	All voltage faults to be corrected.	Within 6 months
3	Connecting new premises to the electricity distribution system.	[] working days (Domestic) [] working days (Other) ¹⁹
4	Respond to all customer letters.	Within 5 working days.
5 From April 2002	A new standard covering the maximum number of interruptions per year (i.e. worst served customer standard) ¹ .	To be considered.
6 From April 2002	A new standard covering telephone response times	To be considered

Summary of responses

6.2 Both licensees and consumer groups were generally in support of the retention of standards in electricity distribution. They acknowledged the need to review distribution standards in the light of the IIP. British Gas Trading took the view that standards should apply only to ex-PES distributors.

6.3 Nine respondents were of the view that a standard requiring them to respond to correspondence with five working days would be too restrictive. They

¹⁸ This standard was proposed during the last distribution price control review. It was omitted, in error, from the October 2000 document.

¹⁹ In the October 2000 paper views were sought on whether the existing targets of 30 (domestic) and 40 (non-domestic) working days should be revised.

considered the current ten-day standard to be essential to the preparation of a proper response. A five-day standard would increase the number of holding responses. Of the 5 respondents supporting the five-day standard, three were PESs that already work to an internal standard of five days.

- 6.4 The majority of the thirteen respondents who commented on the standard on telephone calls took the view that, while a standard in this area could bring important benefits, it should not be set in advance of the IIP.

Discussion

- 6.5 It is important that the existing guaranteed and overall standards are retained. A recent paper published by Ofgem on the IIP, Incentive Schemes – Initial thoughts (January 2001), sets out how incentivising the delivery of quality of service could be incorporated more explicitly within the price control mechanism. This work will be undertaken leading up to the next price control review in 2003/04. Therefore, it is appropriate that the existing arrangements are maintained. That said, it will be important to consider the relationship between the existing standards; the new proposed standards (to be introduced in April 2002); and the IIP as part of a separate project, over the course of the next year. In particular it will be necessary to consider the relationship between the IIP and the new standards. This relationship will need to be considered both at an overall incentive level and at a more detailed definitional level. For example, it may be appropriate to take into account the work that has been done on defining output measures for the IIP in developing the new standards. It will also be appropriate to consider the definition of the existing Overall Standards, including OS1a which some companies have argued leads to the creation of perverse incentives. Putting in place a separate project will help ensure that due consideration is given to the important issues associated with introducing the new standards. Ofgem would expect to consult closely with energywatch and the companies themselves in drawing up the new standards and reviewing the relationship between standards and the IIP.
- 6.6 The DTI will be producing exemption regulations setting out which operators of electricity distribution networks will require a licence. Until the decision on

exemptions known, it seems sensible to restrict standards, as they are now, to what will be ex-PES networks.

- 6.7 It has been suggested that the requirement to give consumers five days' notice of planned supply interruptions might tend to lead to unsafe practices, in that contractors, faced with such a delay, might be tempted to work on live cables. The standard was originally set at two days, which accorded with the two-day requirement for notification of planned outages in the Electricity Supply Regulations 1988 (Regulation 35). The Regulation remains unchanged. OFFER only increased the standard to five days from 1 July 1988²⁰. Some would argue that a five-day target represents enhanced customer service. On the other hand, Ofgem's understanding is that PESs have long used their best endeavours, where it is safe and practicable, to give consumers more than the minimum two days' notice. On balance, we favour reverting to the two-day target. However, we should welcome views on the balance between customer service and safety considerations.

Revised proposal

- 6.8 Ofgem's revised proposal is therefore, to retain the current guaranteed and overall standards of performance, as set out at paragraph 6.1, for the ex-PES distribution businesses. Further work will be undertaken on the Information and Incentives Project for implementation in April 2002.
- 6.9 The October 2000 proposals invited views on whether it would be appropriate to revise the current OS3 which requires the connection of new premises to the electricity distribution system within 30 working days for domestic customers and 40 working days for non-domestic customers. Ofgem proposes that, at present, the existing performance targets (of 30 and 40 working days) should remain in place.
- 6.10 Additionally, we propose that electricity distributors should be subject to certain metering standards that will apply also to suppliers. These standards are discussed in Chapter 9.

²⁰ The Electricity (Standards of performance) (Amendment) Regulations 1998.

7. The future of standards in gas transportation

Initial proposals

7.1 Ofgem's October 2000 consultation proposed the introduction of overall and guaranteed standards of performance, for all gas transporters, broadly along the lines of those operating in electricity but having some major features of the existing voluntary gas standards. We envisaged being able to set different performance levels for different transporters, provided that doing so would not unduly disadvantage them in competing with other transporters. Those initial proposals are set out in the following table.

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 consumers 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 consumers (or relevant suppliers, so that they can pass the information to consumers) 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 consumers 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	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%

Summary of responses

7.2 There was general support from consumer groups for the setting of standards in gas transportation, and for alignment, where possible and appropriate, with electricity standards. Only one respondent favoured limiting the application of standards to Transco.

- 7.3 While receptive, in principle, to the proposed standards, Transco was concerned that the proposed targets were more stringent than those to which they were currently working. The cost implications of meeting the proposed standards had not been recognised in the existing price control.
- 7.4 Three respondents commented on the future of standards in relation to gas emergencies. Neither the existing nor the proposed standard accords with the requirements of the Gas Safety (Management) Regulations 1996 (GMSR) in respect of response to gas emergencies. Transco suggested that a decision on a standard should await the outcome of discussions with the Health and Safety Executive (HSE) on its recent review of the GSMR. HSE's response to the consultation also favoured eliminating any conflict between the two regulatory regimes. energywatch favoured an overall standard with the same target for 'controlled' and 'uncontrolled' gas escapes.

Discussion

- 7.5 Ofgem considers that it may be important to have standards of performance in respect of certain activities carried out by gas transporters, particularly where deficiencies in quality of service are identified. Currently standard condition 19 of the PGT Licence requires licensed gas transporters to establish standards of performance in respect of connections to premises using less than 73,200 kWh (2,500 therms) and in relation to the prevention of gas escapes and the provision of alternative heating and cooking facilities. Transco's public standards of service also include a number of voluntary standards, such as standards of service on telephone calls, correspondence, visits and making and keeping appointments. In addition to these, there are a number of shipper standards of service defined in Transco's network code and Transco has introduced a range of connections standards of service to comply with the Order made in February 1999 under section 28(1) of the Gas Act 1986.
- 7.6 While the use of licence obligations, the Network Code and voluntary arrangements has been successful, Ofgem believes that there may be merit in establishing statutory guaranteed and overall standards for gas transporters. Guaranteed and overall standards of performance are already in place for

electricity distribution businesses and their introduction for gas transportation would help to align electricity and gas regulation.

- 7.7 However, Transco's price control for April 1997 to March 2002 is based on its existing standards of service and planned performance levels, including defined levels of performance for public service standards and shipper standards of service. We recognise that introducing new standards of service or revising planned performance levels may affect Transco's costs and may therefore be inconsistent with the current price control. On balance, Ofgem therefore suggests that it would be appropriate to introduce guaranteed and overall standards in respect of transportation for Transco in April 2002.
- 7.8 Further, in the light of the October 2000 consultation, we believe that greater consideration needs to be given to any standards of performance that might be applicable in respect of gas transporters.
- 7.9 Ofgem therefore considers that, as an interim solution, the existing transportation standards of service for Transco and other gas transporters should be retained until 31 March 2002, within the current regulatory framework. As part of the Transco price control review, we shall consult on the guaranteed and overall standards of performance that should apply to Transco from April 2002. This will include a review of the appropriate framework for performance standards for Transco, and will give Ofgem an opportunity to assess the benefits of revising the planned performance levels and their cost implications. Simultaneously, we shall consult on any standards that might apply to other gas transporters.
- 7.10 Responses to the October 2000 consultation, together with other work on performance standards, have raised a number of important issues. These include the need to:
- take HSE's work on the GSMR into account in reviewing the voluntary standards for emergency response;
 - consider whether it is appropriate to introduce more qualitative standards of performance;

- consider whether it would be more appropriate to convert the connection standards of service into guaranteed and overall standards of performance, or whether these standards should remain as imposed by the enforcement order; and
- further consider the implications of revising the standards of service.

7.11 These issues, among others, will be considered as part of the consultation process, and further work on guaranteed and overall standards of performance this year, in connection with the Transco price control. Ofgem's proposals for standards of performance will be set out for consultation in June 2001, and Ofgem's conclusions, in the light of that consultation, will be published in September 2001. Ofgem is empowered to set guaranteed standards in Statutory Instruments, with the approval of the Secretary of State. Ofgem can separately determine overall standards of performance for gas transporters. The appropriate secondary legislation and determinations will need to be in place by April 2002.

Regulatory standards and gas safety

- 7.12 The safety of the public and of gas licensees' employees is, and must remain, paramount. Gas safety is an HSE responsibility.
- 7.13 Under the GMSR, Transco has an obligation to attend gas escapes 'as soon as is reasonably practicable'²¹. Repairs have to be effected within 12 hours. Policing GMSR is the responsibility of the HSE. The Regulations allow Transco staff the flexibility to establish priorities and to deal with potentially hazardous situations in the most appropriate way.
- 7.14 Transco is also subject to a regulatory performance standard in respect of gas escapes, spillages of carbon monoxide and other hazardous situations. The company is obliged to respond to such situations as quickly as possible, but within at least one hour for uncontrolled escapes and two hours for controlled escapes. It currently has to meet those time limits in 97 per cent of cases. Ofgem adopted the 97 per cent target, at the time of privatisation, from an internal British Gas Corporation performance standard.

²¹ Transco has assumed responsibility for this work on behalf of all gas transporters.

- 7.15 The performance standard partially parallels the GMSR requirement without usefully complementing it. Indeed the specific time targets could, in many circumstances, be met without achieving the overriding requirement for attendance as soon as is reasonably practicable.
- 7.16 Transco has a duty, under the Health and Safety at Work Act, to maintain or improve levels of safety. Current standards do not adequately measure Transco's performance.
- 7.17 Ofgem considers that it would be inappropriate to remove the standard before having held a full dialogue with HSE on the future of the gas escape monitoring regime. Removal of the regulatory standard, in the medium term, would accord with our general policy of withdrawing from intrusive regulation that is no longer required. Before doing so, in this instance, we should want to secure assurance that the new escape monitoring arrangements constituted an improvement on those presently in operation.
- 7.18 Ofgem would, of course, retain an interest in the gas emergency service to the extent that price controls should allow sufficient revenue to fund its efficient operation. This would be a topic for discussion with Transco and HSE during the price control review.
- 7.19 It will be important to take full account of responses to this section of the consultation, and we should particularly welcome HSE's views on the proposal to discontinue the standard.

Revised proposal

- 7.20 In summary, Ofgem's revised proposal is to roll forward the existing gas transporter standards²², pending further consultation on the introduction of guaranteed and overall standards of performance for Transco, as part of the next price control review. Simultaneously, we shall consult on any standards of performance that might apply to other gas transporters. We propose to discuss,

²² Standard Licence Condition 19 will, therefore, be retained in the new transporter licences. Transco's licence will, as now, contain a modified version of Standard Licence Condition 19.

with HSE and other interested parties, the possible replacement of the existing gas safety standards with more straightforward arrangements, policed by HSE²³.

7.21 Any transportation standards under industry agreements (e.g. the network code obligation on loss of supply) should remain in place. In summary, these proposals retain the existing standards of gas transportation.

7.22 Additionally, we propose that Transco should be subject to certain metering standards that will apply also to suppliers. These standards are discussed in Chapter 9.

²³ We propose to retain the requirement for gas transporters to establish standards of performance in respect of the connection of premises using less than 2,500 therms, the provision of alternative heating, and cooking and the prevention of gas escapes. Ofgem will propose a licence modification to remove this requirement when guaranteed and overall standards of performance are introduced for gas transporters.

8. The future of standards in electricity and gas supply

Options identified in the October 2000 consultation

- 8.1 The October 2000 consultation sought views on four options for standards of performance 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.

Summary of responses

- 8.2 Twenty-six of the total thirty-six responses commented specifically on the four options. Eleven respondents (including licensees and consumer groups) favoured the setting of standards of performance for all suppliers. Generally, the licensees took the view that this option should represent only a transitional arrangement and that only minimum standards should be set (allowing for diversity above the minima). London Electricity and Alliance Gas suggested that supply standards should apply only to domestic consumers. energywatch argued for supply standards across a wide range of areas, including erroneous transfers, metering and telephone calls. Only Amerada Energy favoured the restricting of standards of performance to dominant suppliers. The company considered that this option would protect consumers who had not taken advantage of the competitive market.
- 8.3 Regarding market forces and the Competition Act 1998 as sufficient protection, eight respondents (consisting of PES supply businesses, BGT and Aquila Energy) took the view that no standards should be set on suppliers.

- 8.4 Only three respondents favoured the setting of voluntary standards in codes of practice under licence conditions. All three saw such standards as a transitional arrangement, believing that all supply standards should ultimately be removed.
- 8.5 Most respondents considered that it would be inappropriate to set standards in respect of erroneous transfers. Major difficulties in setting such standards arose from the fact that erroneous transfers could arise from a number of causes, and that remedying such problems would require the co-operation of both the suppliers involved.
- 8.6 Nine respondents commented specifically on the electricity standard on reconnection of supply following disconnection for debt. Of these, 8 (a mixture of licensees and consumer groups) were in favour of retaining the standard. They believed that it should be extended to all electricity suppliers, and to gas suppliers. Two respondents considered that such a standard should be placed on, or should at least impose some obligation on, network operators. BGT considered that, as suppliers have no direct control over network operation, contractual arrangements would be preferable to a standard.
- 8.7 There was no general support for standards linked directly to the Social Action Plan, or tailored specifically for disadvantaged consumers.

Discussion

- 8.8 Competition is continuing to develop in the electricity and gas supply markets, with over 6 million consumers having changed their gas supplier, and almost 6.5 million their electricity supplier. Latest figures from the National Audit Office suggest that consumers are switching electricity supplier at the rate of approximately 140,000 per week. The comparable figure for change of supplier in the gas market is about 57,000 per week. An active dual-fuel market exists.
- 8.9 Separation of the gas transportation business from the gas supply business has resulted in benefits for consumers that would not otherwise have been realised. Separation of the electricity distribution and supply businesses will promote competition in electricity markets, further benefiting consumers in terms of price, service and transparency. Additionally, in relation to small consumers, Ofgem will be pressing forward with work on competitive meter and data

services, including meter provision, maintenance, and reading in both gas and electricity.

8.10 Ofgem has conducted market research into consumer opinion on a range of issues. One objective of this market research was to gauge the value that consumers place on certain services, particularly in the competitive electricity and gas supply markets. The results of this market research indicate that consumers do not place a money value on performance standards, although that is not to say that individuals who have encountered a problem do not derive protection from them. Survey results also revealed high levels of customer satisfaction with supply services (particularly in the areas of billing frequency and accuracy). Relatively few gas and electricity consumers reported difficulty in switching supplier.

8.11 In December 2000 Ofgem published the conclusions of its review of the development of competition in domestic gas and electricity supply²⁴. The review found that competition in both markets was developing well. Some 29 per cent of consumers had changed their gas supplier, or had signed a contract to change. This represented an average of 57,327 per week. In electricity, 19 per cent had changed, or had made arrangements to do so, representing some 139,425 per week. The indications were that 60 per cent of these switchers were on dual fuel contracts. Consumers seem to have experienced no difficulty in securing favourable prices. Moreover the vast majority of switchers covered by the 2000 survey declared themselves satisfied with all aspects of their new supplier's service. 89 per cent of them had found it very easy or fairly easy to change supplier. BGT's market share was assessed at about 70 per cent of the gas market. PES market shares varied between 78 and 89 per cent, in their authorised areas.

8.12 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

²⁴ 'A Review of the Development of Competition in Domestic Gas and Electricity Supply' December 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. 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 consumers 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 consumers receiving, potentially competitive offers.

- 8.13 In December 2000 Ofgem published a review of the development of competition in the industrial and commercial electricity supply market²⁶. PESs' first tier market shares by site had fallen from 57 per cent to 42 per cent. By volume, the figures showed a fall from 33 per cent in 1998/99 to 31 per cent in 1999/00. For the over 1MW market, the figures indicated a fall from 45 per cent to 37 per cent by site and from 59 to 45 per cent by volume. Prices had generally fallen in nominal terms, and customers were generally able to secure competitive deals. The report concluded that, taking all indicators together, competition appeared to be relatively well established in both the 100kW to 1MW and over 1MW sectors in England and Wales. In Scotland, there were relatively fewer active suppliers. The report noted that expected developments in the separation of distribution and supply, and in trading arrangements might be helpful in reducing barriers to entry.
- 8.14 Ofgem believes that it may be possible to remove direct supply price regulation in the near future. Provided that competition in both the gas and electricity supply markets will be judged sufficient to remove direct price regulation, it should also be sufficient to justify the removal of prescribed standards of performance. Indeed Ofgem considers effective competition to be the best protection for all supply consumers, in terms of prices and services.

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

²⁶ 'A Review of the Development of Competition in Industrial and Commercial Electricity Supply', December 2000

- 8.15 Now that competition is established in gas and electricity supply, there is a strong argument for discontinuation of standards in supply. To do so would be consistent with Ofgem's declared policy of withdrawing from prescriptive regulation, as consumers are able to rely on the protection that competition affords. If supply standards were to be discontinued, it would make sense to do so when the supply price controls are removed. However the situation in metering is different. Although metering is potentially competitive, there is as yet no effective metering market. Most of the existing 'supply' standards would, under Ofgem's proposal, continue in respect of metering. An example would be the standard on making and keeping appointments, as appointments to visit consumers' premises are almost invariably made for meter access rather than in relation to supply service and billing. Metering issues are discussed further in Chapter 9.
- 8.16 The only electricity standards to be removed under these proposals would be the two covering response to billing enquiries and answering consumers' letters. These standards relate to the timeliness of suppliers' responses rather than to their quality. Experience suggests that they contribute little to the resolution of consumer problems. Over the last six years (1994/95 to 1999/00), an average of only 415 payments has been made under the guaranteed standard on billing enquiries. Over the same period, there were only eight instances of a licensee's failing the overall standard on customer correspondence by more than 1 per cent²⁷. Ofgem considers that both aspects of customer service would be adequately covered by market competition. The Utilities Act 2000 gives the Authority extended powers to set standards for all suppliers. The intention is to achieve an appropriate balance, by expanding standards, for all consumers, in networks and metering, while removing the two standards currently affecting electricity supply, at the time that the price controls are removed.
- 8.17 Ofgem considers there to be a good case for discontinuing the voluntary gas supply standards at the time that the gas supply price control is disapplied. In the interim, it would be inappropriate for BGT to be subject to voluntary standards, under a licence condition, as well as to similar guaranteed and overall standards under the the revised legislation. We therefore propose that the existing,

²⁷ Four of these failures were by the same company.

voluntary gas supply standards should continue until the gas supply price control can be disapplied.

- 8.18 Responses to the consultation stressed the importance of retaining the standard on reconnection following disconnection for debt. These arguments are persuasive, although action to reconnect would, in practice be taken either by the meter operator or the network operator. Ofgem proposes that all suppliers should be under the existing electricity obligation to reconnect following disconnection for debt. Suppliers will be expected to have contractual arrangements in place to ensure that meter operators and network operators effect reconnections within the stipulated time.
- 8.19 Respondents rightly drew our attention to the problem of erroneous transfers. Ofgem does not, however, regard it as practicable to create a standard of performance applying to the two suppliers who are inevitably involved in such problems. However there is a clear need for action to improve the current situation. Accordingly Ofgem proposes to take this issue forward as part of its project on improving customer transfer procedures.
- 8.20 We propose to remove the exclusively supply-related standards at the point when Ofgem withdraws from direct price regulation. Discontinuation of the strictly supply-related standards in this way would accord with the Authority's new principal objective of protecting the interests of consumers, wherever appropriate by promoting effective competition.
- 8.21 Discontinuation of supply standards would not be an irrevocable step. In response to any perceived problem, suitable standards could be quite quickly imposed by Statutory Instrument (for guaranteed standards) or direction (for overall standards). It is conceivable that either developments of the Social Action Plan or the Environmental Action Plan might suggest the setting of new supply standards. The powers to do so will remain in place.

Revised proposals

- 8.22 In summary, Ofgem proposes to remove two exclusively supply-related standards in electricity when supply price regulation is discontinued. Other existing standards will continue in respect of metering, which is discussed in the

following chapter. This represents a withdrawal of prescriptive regulation from what has become a competitive market, balanced by significant extension of formal standards in other areas where competition has yet to develop. It leaves suppliers free to develop supply packages, for a range of price options, on the basis of their commercial judgement.

- 8.23 In gas supply, the existing, voluntary standards should be retained until the price control is disappplied. From that time, competition should be sufficiently developed to be relied upon. There would then be no requirement for supply-related standards in gas.
- 8.24 The existing overall standard on reconnection, following disconnection for electricity debt, will continue. A similar requirement will be formalised in respect of gas disconnections. Although placed on suppliers, these are, in effect metering standards, and are set out in Chapter 9 of this document. Where an electricity supply has been disconnected by removal of the company's fuse, the standard will operate, indirectly, on distributors.

9. The future of standards in electricity and gas metering

Initial proposals

- 9.1 The October consultation document noted that consumers have a contractual relationship with their supplier and that suppliers are generally responsible for providing ancillary services such as metering. It also noted that, whilst arrangements exist to facilitate competition in the provision of metering services, effective competition has not yet been achieved. In both the gas and electricity markets, metering services continued to be provided by dominant service providers.
- 9.2 For this reason, it was proposed that consumers should benefit from the protection afforded by the application of standards of service, at least until competition starts to develop. It was noted that standards could act to inhibit innovation but, conversely, that they could stimulate innovation by encouraging suppliers to exceed minimum standards as a source of competitive advantage.
- 9.3 The consultation document also noted that prepayment meters have a higher failure rate than credit meters and that many prepayment consumers are not able to change supplier. This means that metering is particularly important to prepayment consumers. In setting standards in relation to prepayment meters, a suggestion was made that it might be appropriate to distinguish between different types of fault, i.e. those which interrupt supply should be subject to more onerous standards than those which do not.
- 9.4 Ofgem took the view that there should be a standard of service relating to the frequency of meter reading, but noted that such a standard could be a barrier to meter reading innovations.
- 9.5 The October 2000 consultation document suggested the standards set out in the following tables as a basis for discussion.

i) guaranteed standards.

No.	Service	Required Performance	Payment
1	Providing supply and meter	Arrange and keep an appointment within 2 working days for domestic consumers and 4 working days for non-domestic consumers.	£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 consumers 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 consumers 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%

Summary of responses

- 9.6 Eighteen responses stated specifically that metering standards should be set on suppliers. However, most felt that these should be minimal and should be removed once competition was established. Of those who did not agree, one felt that it was not appropriate to consider metering standards whilst the Metering Competition Focus Group in gas was working on the procedures to enable effective competition. Others felt that standards should only be placed on monopoly or dominant service providers.
- 9.7 Fourteen of the respondents who supported the application of standards on suppliers did not think that it was necessary to place complementary standards on distribution companies and transportation businesses. These respondents felt that suppliers could 'back off' their obligations through appropriate service level agreements with those businesses. However, it was noted that transitional arrangements might be necessary to allow suppliers time to form these agreements. All these fourteen are licensees operating networks. Scottish and Southern argued that metering standards should be set only on distributors and transporters. BGT and Aquila Energy were in favour of 'backing-off' suppliers' metering obligations with standards on those licensees providing and operating meters.
- 9.8 In relation to prepayment meters, of those respondents who expressed a view, many felt that responses to faults should be prioritised. These respondents considered that loss of supply should be a priority, but that there should be a longer allowed response time (where, for example, the supply is maintained and there is credit available on the meter). Another suggestion was that different response times should apply to out-of-hours calls and to bank holidays.
- 9.9 Others felt that prioritising standards in relation to prepayment meters would be subjective and over complicated. Distinguishing between different types of fault could be particularly difficult. An alternative view was that safety, rather than continuity of supply, should be the criterion.
- 9.10 Transco considered that any standard in respect of prepayment metering would tend to stifle innovation. Another respondent suggested that it might prove possible to strike a balance between regulatory scrutiny and encouraging

innovation. A third considered that codes of practice, established through the Social Action Plan, would cover these service elements, making prepayment-metering standards unnecessary.

- 9.11 Few respondents expressed a view on standards for meter reading. Transco stated that, in the gas market, existing contractual standards would be sufficient. Another respondent saw a good case for a firm reading within six months of the customer's joining a supplier, followed by annual firm readings.

Discussion

- 9.12 Ofgem notes the high degree of support for the application of metering standards on suppliers, and is mindful of the risk that standards could act to stifle innovation. It seems sensible, for this reason, to ensure that standards are 'light-handed' and that the potential effect on innovation is considered when setting standards. Ofgem agrees with those respondents who felt that metering standards should be placed on suppliers only until competition in metering is established.
- 9.13 However, at present, although competition in the provision and maintenance of metering is possible, transporters and distributors still have monopoly or dominant positions in this respect. Ofgem therefore considers it appropriate to set complementary standards on distribution and transportation businesses until competition in this area is established.
- 9.14 While the protection provided by these distribution and transportation standards would be lost if suppliers were to contract with alternative service providers, there is a strong case for standards on monopoly or dominant businesses as a proxy for the discipline provided by a competitive market. Except in the case of meter reading standards, Ofgem considers that metering standards applying to suppliers should be backed up in the form of complementary guaranteed and overall standards on Transco and ex-PES distributors.
- 9.15 PESs are already subject to the metering standards proposed. The situation in the gas industry is different in that Transco's voluntary standards do not align with the proposed guaranteed and overall metering standards. As explained in Chapter 7, Ofgem considers it appropriate to set transportation standards following careful consideration of the detail of suitable standards as part of the

work under way on Transco's new price control, which will take effect in April 2002. Ofgem considers, however, that the introduction of guaranteed and overall metering standards for Transco, to complement those proposed for gas suppliers, to be a sensible step to take now. These standards will nonetheless be reviewed, together with transportation standards, as part of Transco's price control.

- 9.16 In relation to meter reading, we believe that there is sufficient competition to afford a degree of protection to consumers. Diverse types of meter reading service are becoming available to consumers. It would be inappropriate to risk stifling the innovation that remote meter-reading, for example, seems set to bring to the market. On balance, it seems better to set only limited meter-reading standards of performance.
- 9.17 Having noted respondents' diverging views on prepayment metering, we remain of the view that prepayment meter consumers risk greater problems on standards of service than do credit consumers. While there is a possibility that standards could restrict innovation in prepayment metering, the danger of stifling innovation must be balanced with social considerations and the entitlement to minimum levels of service that standards provide. The licence conditions established under the Social Action Plan go some way to protecting prepayment consumers, but it seems appropriate for them to be supplemented by standards that specifically address metering issues.

Revised proposal

- 9.18 Ofgem concludes that metering standards should be placed on suppliers until effective competition in metering activities is established and consumers' interests are protected by the discipline of the market. In addition, complementary guaranteed and overall standards in relation to meter provision and maintenance should be placed on ex-PES distributors and Transco.
- 9.19 The following tables summarise our revised proposals for metering standards for both gas and electricity suppliers. Paragraph 9.20 indicates which would also apply to ex-PES electricity distributors, and to Transco.

Guaranteed Standards

No.	Service	Required Performance	Payment
1	Providing a meter	Arrange and keep an appointment within 2 working days for domestic consumers and 4 working days for non-domestic consumers, to an existing connection.	£20/£100
2	Responding to meter problems	Visit within 7 working days or substantive reply within 5 working days.	£20/£100
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 consumers of payments owed under the standards	Write to the customer and make payment within 10 working days.	£20

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 the purpose of billing the customer, for all domestic and business consumers: at least once every year (domestic); and at least once every two years (non-domestic).	<i>90% of properties</i>
4	Responding to prepayment meter faults: within 3 hours on weekdays within 4 hours at weekends	98% 95%
5	All consumers who have been disconnected for non-payment to be reconnected, so as to restore supply, before the end of the working day after they have paid the bill, or made arrangements to pay.	<i>24 Hours</i>

- 9.20 As well as applying to all electricity and gas suppliers, guaranteed standards 1 to 4 would apply to ex-PES distribution businesses and to Transco. Similarly, all the overall standards, except OS3 (meter reading) would apply to ex-PES distributors and to Transco.
- 9.21 Imposing complementary metering standards on Transco and on the ex-PES distributors could mean that a single breach of a guaranteed standard would render both network operator and supplier liable to make a compensation payment to the affected customer. Ofgem considers, however, that the exemptions set out in the regulations could operate to mean that only one licensee would be liable to make a compensation payment. If, for example, an electricity supplier failed to notify the distributor of a prepayment meter fault, the distributor might be able to claim exemption, perhaps because the failure did not result from an act or default of one of his employees. Similarly, there will be circumstances where suppliers can claim exemption. Ofgem intends to review the exemption regulation with these considerations in mind. Any dispute as to liability would be determinable.
- 9.22 Views are invited on these proposals, and particularly on the level of payments attaching to the guaranteed standards.

10. The future of standards in network connections

Initial proposals

- 10.1 The October 2000 consultation proposed that Transco's existing standards on quotations for network connections should be converted into guaranteed and overall standards for electricity distributors and gas transporters. The suggested performance targets included in the proposals had been adapted from the current Transco standards, although the paper recognised that changing circumstances might necessitate modification of the proposed standards, before final introduction. The consultation sought views on the proposed standards and on some suggested performance targets.
- 10.2 The proposed standards would apply to all licensed electricity distributors and gas transporters, but would not be introduced until after the April 2005 price control review (in gas, Ofgem invited views on whether such standards should be introduced earlier, in 2002).

Summary of responses

- 10.3 Although respondents were generally supportive of the proposed standards there was agreement that further consideration of standards in relation to network connections should be postponed. The Electricity Connections Steering Group still has a considerable amount of work to do. Gas transporters and distributors will require time to develop systems to manage connection standards. The present assessment is that no new standards should be considered until at least 2004 (when consideration will start on the 2005 price control). As competition in connections was expected to have developed (except for a dwindling list of non-contestables) by that time, any standards set at present might ultimately prove to be unnecessary or at least need significant modification. A number of respondents suggested that any further consideration of standards should await the outcome of the work of the Electricity Connections Steering Group.
- 10.4 energywatch favoured earlier introduction of the standards, suggesting that they might assist Ofgem in monitoring the development of competition in connections.

Discussion and revised recommendation

10.5 The Electricity Connections Steering Group is tasked with producing workable and effective standards of performance, with attendant liabilities, for electricity connection work. It is due to report during 2001. The group will also consider whether it is feasible to harmonise the standards of performance regimes for gas and electricity connections.

10.6 We now propose that the existing gas standards should remain in force until the report of the Electricity Connections Steering Group is available to inform further consideration of these issues. The existing gas standards are set out in the following table:

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 ²⁸ < 73,200 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 ²⁹ 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

²⁸ A One-off quotation relates to the connection of single premises.

²⁹ A single connection quotation can cover a number of premises.

11. Compensation payments

Initial proposals

- 11.1 The October 2000 consultation paper did not propose increases to existing compensation payments. To do so now would have added to the administrative and cost burdens of restructuring and extending the standards.
- 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 Act³⁰.
 - ◆ have a punitive effect that might be inappropriate in the case of isolated lapses; and
 - ◆ deter consumers 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 of failure, and to create an incentive for the development of management information systems and procedures likely to improve the overall level of customer service. Ofgem suggested that this objective could be achieved, at present, without a general increase in the level of compensation payments under the guaranteed standards.

³⁰ Ofgem is consulting separately on the application of financial penalties, including their purpose in respect of standards of performance.

11.4 Business separation means that electricity distributors and gas transporters will have to make any compensation payments to consumers via suppliers (and in gas, through shippers and suppliers). Ofgem therefore suggested that 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, as a similar provision currently exists in electricity. 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 sought views on this issue.

Summary of responses

11.5 Those respondents who commented on these issues took the view that distributors and transporters should make payments through suppliers and shippers. This connotes an obligation on suppliers and shippers to pass on the payments. There was no consensus as to whether the obligation should be in a licence condition or in the regulations creating the standards of performance.

11.6 Opinion was divided on whether suppliers and shippers should be entitled to recover their costs in passing on compensation payments. Network operators generally considered that such costs would arise out of a customer service responsibility, and that they should not be recoverable. That argument has some force.

Revised proposals

11.7 Ofgem believes it to be appropriate for gas transporters to make any compensation payments under standards of performance through suppliers and shippers, and that this should be done through licence conditions, mirroring the existing position in electricity³¹. The majority of respondents commenting on the issue favoured this approach. This will apply to the existing licence requirements for standards of performance for gas transporters, which will be retained as an interim solution until April 2002, the new metering standards proposed for Transco, and any future guaranteed standards of performance.

³¹ The draft standards licence conditions, published in October 2000, included conditions requiring the passing on of payments.

11.8 A comparable mechanism already exists to provide for electricity suppliers to pass on compensation payments from distributors to consumers.

12. Future action

- 12.1 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.
- 12.2 Ofgem would welcome views on the revised proposals set out in this paper, and particularly on the levels of performance that should attach to the standards.

Timetable for the consultation

- 12.3 The deadline for responses is Friday, 2 March 2001.
- 12.4 We currently plan to put in place the necessary regulations and orders in early April 2001. That would accord with the commencement of the relevant provisions of the Utilities Act.
- 12.5 Responses to this consultation should be sent to:

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9 Millbank
London
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Tel: 020-7901-7297

Fax: 020-7901-7197

E-mail: arthur.cooke@ofgem.gov.uk

Appendix 1 Respondents to the October 2000 consultation

Alliance Gas

Amerada

Aquila Energy

BGT

British Energy

British Gas Connections

East Midlands Electricity

Electricity Connections Steering Group (Customer representatives)

Energy Savings Trust

Energywatch

Federation of Small Businesses

GPU Power UK

Health and Safety Executive

Hyder Gas Networks

Infralec

Mr H H Jones

London Electricity

NCS Services

Neighbourhood Energy Action

NEDL

Northern Electric and Gas

Npower

Powergen

Public Utilities Access Forum

Sanderson Watts Associates

SEEBOARD

Scottish and Southern Energy

Scottish Power

South East Electricity Consumer Committee

Transco

TXU Europe

UNISON

United Utilities

Western Power Distribution

Yorkshire Electricity (Distribution)

Yorkshire Electricity (Supply)