

APPENDIX 1.1  
(Referred to in paragraph 1.1)

**The reference and procedural matters relating to the inquiry**

1. On 25 November 1987 the Director General of Fair Trading sent to the Commission the following reference:

FAIR TRADING ACT 1973  
REFERENCE TO MONOPOLIES AND MERGERS COMMISSION

**Supply of gas through pipes to certain persons**

The Director General of Fair Trading in exercise of his powers under sections 47(1), 49(1) and 50(1) of the Fair Trading Act 1973 hereby refers to the Monopolies and Mergers Commission the matter of the existence or the possible existence of a monopoly situation in relation to the supply in Great Britain of gas through pipes to persons other than tariff customers within the meaning of Part I of the Gas Act 1986.

The Commission shall investigate and report on the questions whether a monopoly situation exists and, if so:

- (a) by virtue of which provisions of sections 6 to 8 of the said Act that monopoly situation is to be taken to exist;
- (b) in favour of what person or persons that monopoly situation exists;
- (c) whether any steps (by way of uncompetitive practices or otherwise) are being taken by that person or those persons for the purpose of exploiting or maintaining the monopoly situation and, if so, by what uncompetitive practices or in what other way;
- (d) whether any action or omission on the part of that person or those persons is attributable to the existence of that monopoly situation and, if so, what action or omission and in what way it is so attributable; and
- (e) whether any facts found by the Commission in pursuance of their investigations under the preceding provisions of this paragraph operate, or may be expected to operate, against the public interest.

The Commission shall report upon this reference within a period of nine months from the date hereof.

(Signed) GORDON BORRIE  
Director General of Fair Trading

25 November 1987

2. On the same date, the Office of Fair Trading (OFT) issued a press release in which the Director General said that four matters had been of concern to him:

- (a) 'There is no clear basis for individual prices, and no clear relationship to changes in the price of alternative fuels or British Gas' own costs for gas. Companies therefore have great difficulty in estimating their future gas costs.'
- (b) 'There appear to be wide differences in the prices paid by customers with similar requirements and levels of consumption.'
- (c) 'Contracts typically fix prices for a quarter or less; this, together with the lack of transparency, makes it very difficult for companies to estimate their future gas costs when tendering for contracts.'
- (d) 'British Gas is unwilling to quote a price for interruptible supplies until the customer has installed dual-firing equipment, making it difficult for him to judge whether the investment would be worthwhile. Nor is British Gas willing to offer such supplies to companies which would close down when supplies are interrupted rather than using alternative fuels.'

3. On 2 December 1987 the Chairman of the Commission,<sup>1</sup> acting under section 4 of the Fair Trading Act 1973 and Part II of Schedule 3 thereto, directed that the functions of the Commission in relation to the reference should be discharged through a group consisting of six members of the Commission including, as Chairman, Mr H H Hunt. The composition of the group is indicated in the list of members which prefaces this report.

4. Notices inviting interested parties to submit evidence to the Commission were placed in:

<i>Belfast Gazette</i>	<i>Natural Gas</i>
<i>Economist</i>	<i>Procurement Weekly</i>
<i>Edinburgh Gazette</i>	<i>Financial Times</i>
<i>London Gazette</i>	<i>The Times</i>

5. In addition, the Commission sought evidence and views directly from British Gas (BG); from Government departments; the Office of Gas Supply (OFGAS); the Office of Fair Trading (OFT); the Confederation of British Industry; the Trades Union Congress; the Gas Consumers Council; relevant trade associations; organisations which had complained to the OFT about BG; from members of both the United Kingdom Offshore Operators Association, and the Onshore Operators Group; and 100 gas users from among BG's principal contract customers.

6. A survey based on a sample of 415 of BG's contract customers was carried out. The findings of this survey are considered in Appendix 5.2.

7. We received a number of submissions from BG and were given a presentation by it. Members and staff also visited BG's West Midlands headquarters, and we also visited and received a presentation from Sheffield Forgemasters Ltd.

8. Many submissions were received from other parties. The names of those who wrote to us and who were willing to be named in this report are given in Appendix 6.1. A summary of some of the evidence is given in Chapter 6.

9. We held hearings with BG; the Department of Energy; OFGAS; the Gas Consumers Council; OFT; the British Independent Steel Producers Association; the National Health Service; the Chemical Industries Association; the British Ceramic Confederation; the Food and Drink Federation; Imperial Chemical Industries PLC; UKF Fertilizers Ltd; Associated Heat Services Plc; Sheffield Forgemasters Ltd; the British Management Data Foundation; the Major Energy Users' Council; Innes Lees Industries Ltd; and with Mr Allen Sykes and Professor Colin Robinson.

10. On 28 March 1988 we informed BG of our provisional conclusion that a monopoly situation as defined in section 7(1)(a) of the Fair Trading Act 1973 existed in favour of BG, in relation to the supply of gas to contract customers (those using more than 25,000 therms in a 12-month period) in Great Britain. We notified the company of the grounds for this provisional conclusion and set out the likely issues which the Commission would need to consider when assessing the effect of the monopoly situation on the public interest.

11. We received a written submission dated 28 April 1988 from BG in response to our letter of 28 March 1988, and representatives of the company accompanied by Counsel attended a public interest and a remedies hearing at the Commission.

12. Some of the evidence obtained in the course of our inquiry was of a confidential nature; our report contains only such information as we consider necessary for an understanding of our conclusions.

13. We should like to place on record, our thanks to all those who helped us in our inquiry, and particularly to BG on which the main burden fell.

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<sup>1</sup> Then Sir Godfray Le Quesne, who retired as Chairman on 31 December 1987.

APPENDIX 2.1

(referred to in paragraph 2.14)

**Gas supply statement and schedules**

**British Gas plc**

Notice published under Condition 5 of the  
Authorisation granted and Direction given  
by the Secretary of State for Energy  
to the British Gas Corporation  
under the Gas Act 1986.

**Schedule of Maximum Contract Prices**

Until further notice:

The maximum unit charge for firm contract supplies of gas will be 36.2p/therm.

The maximum unit charge for interruptible contract supplies of gas will be 30.6p/therm.

In each case the unit charge represents the maximum charge per unit of gas for each type of supply.

The actual charge per therm for supplies of gas to individual customers will be determined by negotiation and generally may be less than the amount stated above.

This Statement does not apply to charges for the supply of back-up gas pursuant to Section 19(4) of the Gas Act 1986.

**General Statement of Policy regarding willingness to enter into Negotiations for Prices of gas supplies to Contract Customers.**

British Gas declares its willingness in all cases to enter into negotiations for prices for the supply of gas to all contract customers or potential contract customers. In these negotiations British Gas, taking account of the relevant circumstances, will not set prices so as to restrict, distort or prevent competition contrary to the public interest.

For the three years from the date hereof and subject to changes in the value of sterling or major changes in oil prices, taking into account price movements in competitive fuels and the individual circumstances of the demand, British Gas intends to limit increases in its maximum firm contract prices to about the rate of inflation.

For the three years from the date hereof, having regard to the individual circumstances of the demand, British Gas intends to continue to set interruptible gas prices in relation to competitive fuels which are interchangeable with gas.

This Statement does not apply to the supply of back-up gas pursuant to Section 19(4) of the Gas Act 1986.

Dated the 23rd day of August 1986.

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# British Gas plc

## Schedule of Maximum Contract Prices

With effect from 1st July 1987 and until further notice:

The maximum unit charge for firm contract supplies of gas will be 34.5p/therm.

The maximum unit charge for interruptible contract supplies of gas will continue unchanged at 30.6p/therm.

In each case the unit charge represents the maximum charge per unit of gas for each type of supply.

The actual charge per therm for supplies of gas to individual customers will be determined by negotiation and generally may be less than the amount stated above.

This Statement does not apply to charges for the supply of back-up gas pursuant to Section 19(4) of the Gas Act 1986.

Dated the 25th day of June 1987.

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**Statement on common carriage issued by BG**

**INFORMATION FOR THOSE WISHING TO HAVE  
GAS CONVEYED BY BRITISH GAS**

This notice provides general information for the guidance of persons who wish to have gas conveyed through British Gas pipelines.

Any such person should contact British Gas plc at its registered office, with a view to negotiating for the conveyance of the gas. The precise terms to be negotiated will depend upon the requirements of the parties, but British Gas will expect the following principal matters to be covered in negotiations:

1. **Quality:** The gas must be of an appropriate quality (including such factors as chemical composition, calorific value, Wobbe Index, dewpoint), compatible with that already conveyed by British Gas for sale to its own customers and on behalf of others.
2. **Quantity:** The rate of offtake of gas by the third party from British Gas' pipeline system must, at all times, relate to the rate of his input to the system in an appropriate manner, allowing for gas that is unaccounted for or used by British Gas in conveyance of the third party's gas, subject to any agreement to make available back-up supplies. Operating procedures will include satisfactory arrangements relating to forecasts and nominations of the rate of conveyance of gas, and changes to that rate.
3. **Standards:** The gas must be supplied to British Gas at the point of input and be capable of being accepted from British Gas at the point of output in each case under physical conditions (including such factors as temperature and pressure) compatible with the normal operation of British Gas' pipeline system. Any pipelines connected to British Gas' pipeline system must be designed, constructed and operated to Standards laid down by the Institution of Gas Engineers.
4. **Priorities:** Conveyance of the gas must not prejudice the ability of British Gas to supply gas for its existing and reasonably planned future customers in accordance with its statutory and contractual obligations, or to convey gas on behalf of other persons for whom British Gas is already committed to convey gas.
5. **Force Majeure:** Appropriate provisions covering *force majeure* interruptions in the event of British Gas being prevented from conveying gas for third party suppliers, by reason of circumstances beyond its control, will need to be included.
6. **Basis of Charge:** The charges for conveyance of gas will depend upon the circumstances in any particular case, but will be calculated consistently with the principle laid down in Section 19(5) of the Gas Act 1986. The charges will depend principally upon the exact input point and destination of the gas and hence the elements of the pipeline system involved, the maximum rate of flow compared with the annual average (i.e. the load factor), the quantity of gas conveyed and the duration of the agreement. Also, additional sums will be payable to defray the costs of any specific works, consistent with the provisions of the Gas Act, that need to be carried out in order to accept, convey and deliver the gas, including the costs of metering.
7. **Structure of Charges:** The charges referred to in 6 may be structured in the following way:
  - (a) an initial payment for the right to have gas conveyed;
  - (b) a recurring capacity charge, whether or not any gas is conveyed on behalf of the third party supplier; and
  - (c) a commodity charge, subject in appropriate cases to a minimum payment, for gas conveyed by British Gas.

**8. Examples of Charges:** The following examples give an indication of the likely level of the charge for bulk conveyance of gas through the national and regional transmission systems, at the rate current at the date of this notice, which British Gas would expect to make in typical cases. In each example the price would be subject to indexation on an annual basis. Both cases assume an average daily flow rate of 50 mcf/d in each year, at a constant hourly rate, but differ in terms of the source, destination and load factor.

**Case 1** Gas received by British Gas at Bacton (East Coast of England) and delivered to a point on the regional transmission system near to Birmingham, at a load factor of 60% . . . 4p/therm.

**Case 2** Gas received by British Gas at St Fergus (Scotland) and delivered to a point on the regional transmission system in the Glasgow or Edinburgh area, at a load factor of 90% . . . 3½p/therm.

The charges are expressed in p/therm, but in practice may be payable as a recurring capacity charge and commodity charge, as described in Section 7 above. No allowance is made in either case for the possible requirement by the third party for conveyance of gas through the distribution system, or for any initial payment for the right to have gas conveyed or to defray the cost of any specific works which are required.

British Gas plc  
Registered Office:  
Rivermill House, 152 Grosvenor Road  
London SW1V 3JL  
Registered in England: No. 2006000

November 1986

APPENDIX 4.1  
(referred to in paragraph 4.1)

**BG: profit and loss summaries**

	<i>£ million</i>				
	<i>Year to 31 March</i>				
	<i>1984</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>
<i>Current cost basis</i>					
Turnover	6,395	6,914	7,687	7,610	7,364
Cost of sales	(3,387)	(3,982)	(4,594)	(4,139)	(3,821)
Gross profit	3,008	2,932	3,093	3,471	3,543
Distribution costs	(1,552)	(1,607)	(1,711)	(1,749)	(1,749)
Administrative expenses	(612)	(663)	(676)	(721)	(741)
Operating profit	844	662	706	1,001	1,053
Gearing adjustment*	—	—	—	8	23
Net interest receivable	74	61	94	49	(68)
Profit before taxation	918	723	800	1,058	1,008
Taxation	(154)	(188)	(380)	(487)	(439)
Profit after taxation	764	535	420	571	569
Dividend	—	—	—	(166)	(332)
Profit retained	764	535	420	405	237
<i>Historical cost basis</i>					
Turnover	6,395	6,914	7,687	7,610	7,364
Cost of sales	(3,350)	(3,914)	(4,535)	(4,153)	(3,818)
Gross profit	3,045	3,000	3,152	3,457	3,546
Distribution costs	(1,340)	(1,421)	(1,494)	(1,533)	(1,542)
Administrative expenses	(583)	(635)	(634)	(683)	(681)
Operating profit	1,122	944	1,024	1,241	1,323
Net interest receivable	74	61	94	49	(68)
Profit before taxation	1,196	1,005	1,118	1,290	1,255
Taxation	(154)	(188)	(380)	(487)	(439)
Profit after taxation	1,042	817	738	803	816
Dividend	—	—	—	(166)	(332)
Profit retained	1,042	817	738	637	484

Source: BG.

\*Before 1986/87 BG, as a nationalised industry, was not required to include a gearing adjustment in its current cost profit and loss accounts.

APPENDIX 4.2  
(referred to in paragraph 4.1)

**BG: balance sheet summaries**

	<i>Year to 31 March</i>				<i>£ million</i>
	<i>1984</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>
<i>Current cost basis</i>					
Tangible fixed assets	15,039	15,664	16,897	17,103	17,134
Stocks and debtors less liabilities (other than borrowings) and provision for site restoration	<u>696</u>	<u>646</u>	<u>794</u>	<u>400</u>	<u>(2)</u>
Capital employed	15,735	16,310	17,691	17,503	17,132
Net liquid funds/(borrowings)	<u>246</u>	<u>437</u>	<u>624</u>	<u>(781)</u>	<u>(303)</u>
Net assets (represented by capital and reserves)	<u>15,981</u>	<u>16,747</u>	<u>18,315</u>	<u>16,722</u>	<u>16,829</u>
<i>Historical cost basis</i>					
Tangible fixed assets	5,078	5,754	6,157	6,306	6,936
Stocks and debtors less liabilities (other than borrowings) and provision for site restoration	<u>695</u>	<u>645</u>	<u>793</u>	<u>400</u>	<u>(2)</u>
Capital employed	5,773	6,399	6,950	6,706	6,934
Net liquid funds/(borrowings)*	<u>246</u>	<u>437</u>	<u>624</u>	<u>(781)</u>	<u>(303)</u>
Net assets (represented by capital and reserves)	<u>6,019</u>	<u>6,836</u>	<u>7,574</u>	<u>5,925</u>	<u>6,631</u>
<i>*Net liquid funds/(borrowings)</i>					
Investments	739	758	939	959	2,076
Cash	33	30	25	40	29
Included in creditors due within one year:					
Debenture	—	—	—	(250)	(650)
Bank loans and overdrafts	(173)	(11)	(4)	(30)	(39)
Short-term US \$ and Cdn \$ borrowings	—	—	—	—	(358)
US promissory note	—	—	(119)	—	—
Creditors due over one year	<u>(353)</u>	<u>(340)</u>	<u>(217)</u>	<u>(1,500)</u>	<u>(1,361)†</u>
	246	437	624	(781)	(303)

Source: BG.

	<i>£m</i>	
†Includes debenture repayable between 20 March and 20 April:	1990	400
	1991	350
	1992	350

APPENDIX 4.3  
(referred to in paragraph 4.1)

**BG: summarised statements of source and application of funds  
(out-turn prices)**

	<i>Year to 31 March</i>					<i>£ million</i>
<i>Source of funds</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>Total-5 yrs to 31 March 1988</i>
Historical cost profit before taxation	1,196	1,005	1,118	1,290	1,255	5,864
Depreciation	115	135	158	192	185	785
Unsuccessful exploration expenditure written off	—	1	—	4	37	42
Provision for site restoration	3	4	6	6	8	27
<b>Generated from operations</b>	<b>1,314</b>	<b>1,145</b>	<b>1,282</b>	<b>1,492</b>	<b>1,485</b>	<b>6,718</b>
New loans	—	—	—	—	225	225
Proceeds of sales of tangible fixed assets and oil field interest	12	95	24	23	51	205
<b>Total funds generated</b>	<b>1,326</b>	<b>1,240</b>	<b>1,306</b>	<b>1,515</b>	<b>1,761</b>	<b>7,148</b>
 <i>Application of funds</i>						
Taxation paid	235	131	262	410	553	1,591
Dividends paid	—	—	—	—	270	270
Additions to tangible fixed assets	1,097	822	585	369	448	3,321
Stocks increase/(decrease)	1	6	(12)	23	45	63
Debtors increase/(decrease)	164	175	181	(99)	(301)	120
Creditors (increase) /decrease	(227)	(85)	103	(69)	(105)	(383)
<b>Utilised in operations</b>	<b>1,270</b>	<b>1,049</b>	<b>1,119</b>	<b>634</b>	<b>910</b>	<b>4,982</b>
Acquisition of subsidiary	—	—	—	—	388	388
Debenture loan instalment paid	—	—	—	750	—	750
<b>Total funds utilised</b>	<b>1,270</b>	<b>1,049</b>	<b>1,119</b>	<b>1,384</b>	<b>1,298</b>	<b>6,120</b>
<b>Increase in liquid funds less borrowings</b>	<b>56</b>	<b>191</b>	<b>187</b>	<b>131</b>	<b>463</b>	<b>1,028</b>
 <i>*1987-88 constant prices*</i>						
Increase in liquid funds less borrowings	67	217	201	136	463	1,084

Source: BG.

\*Using fiscal year average RPI, 1987-88 = 100.

APPENDIX 4.4  
(referred to in paragraph 4.1)

**BG: returns on capital employed**

	<i>Year to 31 March</i>				
	<i>1984</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>
<i>Current cost basis</i>					
Average capital employed (£m)	15,083	16,023	17,001	17,597	17,318
Operating profit (£m)	844	662	706	1,001	1,053
Return (%)	5.6	4.1	4.2	5.7	6.1
<i>Historical cost basis</i>					
Average capital employed (£m)	5,281	6,086	6,675	6,828	6,820
Operating profit (£m)	1,122	944	1,024	1,241	1,323
Return (%)	21.2	15.5	15.3	18.2	19.4

*Source:* BG.

APPENDIX 4.5  
(referred to in paragraph 4.3)

**BG: segmental analysis of turnover and operating profit**

£ million

	Year to 31 March														
	1984			1985			1986			1987			1988		
	Turnover	Profit		Turnover	Profit		Turnover	Profit		Turnover	Profit		Turnover	Profit	
	CCA	HCA	Turnover	CCA	HCA	Turnover	CCA	HCA	Turnover	CCA	HCA	Turnover	CCA	HCA	
Gas supply	5,919	852	1,118	6,396	690	958	7,109	703	1,006	6,967	924	1,148	6,679	966	1,220
Installation and contracting	229	2	3	236	7	8	275	11	13	310	28	30	347	33	35
Appliance trading	229	5	9	247	9	14	278	12	17	300	19	25	307	24	28
Exploration subsidiaries	41	(18)	(14)	58	(50)	(45)	94	(25)	(21)	189	19	23	224	24	30
Other activities	18	3	6	31	6	9	21	5	9	28	11	15	27	6	10
	<u>6,436</u>	<u>844</u>	<u>1,122</u>	<u>6,968</u>	<u>662</u>	<u>944</u>	<u>7,777</u>	<u>706</u>	<u>1,024</u>	<u>7,794</u>	<u>1,001</u>	<u>1,241</u>	<u>7,584</u>	<u>1,053</u>	<u>1,323</u>
Intra-group sales	(41)			(54)			(90)			(184)			(220)		
	<u>6,395</u>			<u>6,914</u>			<u>7,687</u>			<u>7,610</u>			<u>7,364</u>		

Source: BG.

APPENDIX 5.1  
(referred to in paragraph 5.15)

**Contract price data supplied by BG**

Tables 1 to 4 below give details of gas prices charged by BG to firm gas customers distinguished by category of customer. In each of the tables the numbers of industrial and commercial customers falling within specified price and volume bands are shown. The data do not include the relatively small number of gas supply contracts which BG has with domestic consumers. Price data for interruptible gas are given in Table 5.

**TABLE 1 Numbers of industrial and commercial firm gas contracts by price band and size of load—Category A (March 1988)**

Price band (pence per therm)	Load size ('000 therms)								Total
	<35	36-50	51-100	101-250	251-500	501-1000	1001-2000	>2000	
<20.0	0	0	0	0	0	0	0	0	0
20.00-24.99	0	0	0	1	3	2	3	2	11
25.00-26.99	0	1	8	17	8	5	8	12	59
27.00-28.99	6	9	28	44	36	31	15	23	192
29.00-29.99	22	26	55	85	61	43	22	2	316
30.00-30.99	49	35	81	95	48	34	14	7	363
31.00-31.99	8	18	36	71	47	14	7	0	201
32.00-32.99	12	12	57	57	26	6	4	0	174
33.00-33.99	8	14	45	48	16	5	2	2	140
34.00-34.39	8	13	29	25	10	7	2	0	94
34.4	26	39	66	52	8	1	0	0	192
<b>Total</b>	<b>139</b>	<b>167</b>	<b>405</b>	<b>495</b>	<b>263</b>	<b>148</b>	<b>77</b>	<b>48</b>	<b>1,742</b>

Source: BG.

**TABLE 2 Numbers of industrial and commercial firm gas contracts by price band and size of load—Category B (March 1988)**

Price band (pence per therm)	Load size ('000 therms)								Total
	<35	36-50	51-100	101-250	251-500	501-1000	1001-2000	>2000	
<20.0	0	0	0	0	0	0	0	0	0
20.00-24.99	0	0	0	0	2	2	2	11	17
25.00-26.99	0	1	1	3	3	6	0	5	19
27.00-28.99	6	3	13	11	4	8	18	13	76
29.00-29.99	5	2	12	19	14	29	21	13	115
30.00-30.99	9	11	43	27	30	36	23	13	192
31.00-31.99	30	51	90	117	68	63	47	21	487
32.00-32.99	65	72	121	129	80	42	18	17	544
33.00-33.99	43	58	136	153	71	29	6	1	497
34.00-34.39	25	38	117	115	72	14	7	1	389
34.4	262	336	444	253	37	4	2	0	1,338
>34.4	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>445</b>	<b>572</b>	<b>977</b>	<b>827</b>	<b>381</b>	<b>2233</b>	<b>144</b>	<b>95</b>	<b>3,674</b>

Source: BG.

**TABLE 3 Numbers of industrial and commercial firm gas contracts by price band and size of load—Category C (March 1988)**

Price band (pence per therm)	Load size ('000 therms)								Total
	<35	36-50	51-100	101-250	251-500	501-1000	1001-2000	>2000	
<20.0	0	0	0	0	0	0	0	0	0
20.00-24.99	0	0	0	2	0	2	1	7	12
25.00-26.99	0	0	1	0	2	1	2	1	7
27.00-28.99	12	8	12	4	3	3	1	5	48
29.00-29.99	3	10	12	20	8	2	4	3	62
30.00-30.99	20	22	38	18	9	6	9	6	128
31.00-31.99	36	44	46	52	24	10	10	10	232
32.00-32.99	98	75	95	84	37	30	19	9	447
33.00-33.99	325	267	259	247	89	58	29	10	1,284
34.00-34.39	191	214	438	406	193	82	20	3	1,547
34.4	2,188	2,632	2,860	1,246	181	51	13	2	9,173
<b>Total</b>	<b>2,873</b>	<b>3,272</b>	<b>3,761</b>	<b>2,078</b>	<b>546</b>	<b>245</b>	<b>108</b>	<b>56</b>	<b>12,940</b>

Source: BG.

**TABLE 4 Numbers of industrial and commercial firm gas contracts by price band and size of load—all customers (March 1988)**

Price band (pence per therm)	Load size ('000 therms)								Total
	< 35	36-50	51-100	101-250	251-500	501-1000	1001-2000	> 2000	
< 20-0	0	0	0	0	0	0	0	0	0
20-00-24-99	0	0	0	3	5	6	6	20	40
25-00-26-99	0	2	10	20	13	12	10	18	85
27-00-28-99	24	20	53	59	43	42	34	41	316
29-00-29-99	30	38	79	124	83	74	47	18	493
30-00-30-99	78	68	162	140	87	76	46	26	683
31-00-31-99	74	113	172	240	139	87	64	31	920
32-00-32-99	175	159	273	270	143	78	41	26	1,165
33-00-33-99	376	339	440	448	176	92	37	13	1,921
34-00-34-39	224	265	584	546	275	103	29	4	2,030
34-4	2,476	3,007	3,370	1,551	226	56	15	2	10,703
Total	3,457	4,011	5,143	3,401	1,190	626	329	199	18,356

Source: BG.

**TABLE 5 Numbers of industrial and commercial interruptible gas contracts by price band and size of load—all customers (March 1988)**

Price band (pence per therm)	Load size ('000 therms)								Total
	< 250	251-500	501-1000	1001-2000	2001-3000	3001-5000	5001-7000	> 7000	
< 16-0	6	29	42	36	32	27	19	42	233
16-00-17-99	23	129	152	130	41	41	16	22	554
18-00-19-99	9	54	66	40	19	14	4	7	213
20-00-21-99	12	40	36	26	6	10	2	4	136
22-00-23-99	4	11	26	21	3	4	2	1	72
24-00-25-99	4	21	22	15	4	1	0	0	67
26-00-27-99	2	5	9	2	1	1	0	0	20
28-00-30-99	4	3	6	1	0	0	0	0	14
> 30-99	0	0	0	0	0	0	0	0	0
Total	64	292	359	271	106	98	43	76	1,309

Source: BG.

APPENDIX 5.2

(referred to in paragraphs 5.21 and 6.1)

**MMC survey of British Gas contract customers**

1. A questionnaire was sent to a sample of BG non-tariff customers in January 1988 in order to obtain up-to-date information about their gas contracts and their views on BG's contract pricing policy. For this purpose 415 customers were selected as a stratified random sample across industry groups and consumption bands from the overall field of 19,000 industrial and commercial contract customers. The sample contained 245 (approximately 1 in 40) of BG's industrial customers and 170 (about 1 in 60) commercial and non-industrial customers.

2. Replies to the questionnaire were received from 155 in the industrial group (a 63 per cent response rate) and 93 in the commercial and non-industrial group (a 55 per cent response rate). Where BG customers hold separate contracts for firm and interruptible gas supplies, additional returns were made; allowing for these, responses in the survey covered 176 industrial contracts and 98 commercial contracts.

3. The majority of commercial and non-industrial customers said that they used gas for space heating, hot water, catering etc, while most industrial customers mentioned uses such as steam raising for processing, boiler firing, factory heating, drying products etc.

4. Respondents were asked to give details of recent gas contract price history. Table 1 shows the range of prices paid, analysed by consumption size band for firm contract customers, based on prices paid during January 1988. The table shows that a contract price of 34.40 pence per therm was charged to nearly half of the firm gas customers in the survey; within the remainder there was considerable variation in prices charged down to a minimum of 28.00 pence per therm. Table 2 gives a corresponding breakdown of interruptible gas contract prices paid during January 1988. Again there is marked variation between prices at different levels of consumption, even among those with the ability to switch to HFO during periods of interruption.<sup>1</sup> Interruptible gas prices in the survey ranged from 15.50 to 27.50 pence per therm.

TABLE 1 Firm contract customers—numbers in price bands analysed by annual consumption, January 1988

1987 consumption ('000 therms)	Total	pence per therm					Weighted average price	Minimum in group	Maximum in group
		< 28.00	28.00 to 29.99	30.00 to 31.99	32.00 to 34.39	34.40			
> 250	51	0	7	18	25	1	30.67	28.00	34.40
100-249.99	50	0	0	2	29	19	33.65	30.50	34.40
< 100	112	0	1	7	20	84	34.05	29.50	34.40
Total above	214	0	8	27	74	105	31.25	28.00	34.40
Not stated	21	0	0	1	6	15	34.16*	30.08	34.40
All cases	234	0	8	28	80	120			

Source: MMC Survey.

\* Unweighted.

<sup>1</sup> BG said that those customers not shown as 'HFO users' were almost certainly operating processes capable of using HFO.

TABLE 2 Interruptible contract customers—numbers in price bands analysed by annual consumption, January 1988

1987 consumption ('000 therms)	Total	pence per therm						Weighted average price	Minimum in group	Maximum in group
		< 16-00	16-00 to 17-99	18-00 to 19-99	20-00 to 20-99	21-00 to 23-99	> 24-00			
> 2,000 (of which HFO users)	8 (5)	4 (3)	3 (2)	0	0	0	1 (0)	16-78 (15-80)	15-50 (15-50)	25-25 (16-75)
1,000-1,999 (of which HFO users)	9 (6)	0	6 (4)	0	1 (1)	1 (1)	1 (0)	19-28 (18-45)	16-00 (16-00)	26-21 (22-10)
500-999 (of which HFO users)	12 (6)	0	3 (2)	5 (3)	1 (1)	2 (0)	1 (0)	19-47 (18-14)	16-90 (16-90)	27-50 (20-00)
< 500 (of which HFO users)	9 (6)	1 (1)	3 (2)	2 (1)	2 (2)	1 (0)	0 (0)	17-67 (17-47)	15-75 (15-75)	22-00 (20-26)
All cases (of which HFO users)	38 (23)	5 (4)	15 (10)	7 (4)	4 (4)	4 (1)	3 (0)	17-88 (16-90)	15-50 (15-50)	27-50 (22-10)
Not stated (no HFO users)	2	0	0	1	0	0	1	22-20*	19-00	25-40

Source: MMC survey.

\* Unweighted.

5. Respondents were asked to state whether they currently found BG's present pricing policy for non-tariff gas acceptable, and if not, to explain how their organisation was affected. Replies are analysed in Tables 3 and 4. Thirty-five per cent of commercial respondents who use firm gas said that BG's pricing policy was 'fully acceptable', a further 42 per cent found it 'partly acceptable'; and 18 per cent said it was 'not acceptable'; (5 per cent expressed no view). In the industrial sector among those using firm gas the figures were about 40 per cent for 'fully acceptable', 39 per cent for 'partly acceptable', 20 per cent for 'not acceptable', with one per cent offering no view. Almost all interruptible gas users found BG's policy either fully or partly acceptable.

TABLE 3 Survey respondents' view of BG pricing policy—firm gas users

1987 consumption ('000 therms)	Commercial				Industrial			
	Fully accept- able	Partly accept- able	Not accept- able	No reply	Fully accept- able	Partly accept- able	Not accept- able	No reply
Over 1,000	0	1	3	0	1	3	5	0
Up to 1,000	27	33	11	4	52	47	24	1
Not stated	4	3	2	0	5	7	1	0
Total	31	37	16	4	58	57	30	1

Source: MMC Survey.

TABLE 4 Survey respondents' view of BG pricing policy—interruptible gas users

1987 consumption ('000 therms)	Commercial				Industrial			
	Fully accept- able	Partly accept- able	Not accept- able	No reply	Fully accept- able	Partly accept- able	Not accept- able	No reply
Over 1,000	1	4	0	0	5	7	0	0
Up to 1,000	1	3	0	1	5	9	2	0
Not stated	0	0	0	0	0	1	1	0
Total	2	7	0	1	10	17	3	0

Source: MMC Survey.

6. Among complaints from those who did not find BG's present pricing policy fully acceptable the following may be noted:

- lack of transparency in pricing;
- BG pricing policy placed companies at a competitive disadvantage in overseas markets for products;
- regional variations in pricing;
- lack of scope for negotiation of prices;
- alternative energy supply requirement for lower pricing; and
- BG's charges not reflecting the fall in price of other fuels.

7. Questions were asked about the availability and technical possibility of alternative sources of energy and an analysis of replies is given in Table 5. Most of those stating that alternative firing was a technical possibility mentioned either that the capital cost would be substantial or that they had chosen gas on cost grounds at some stage in the past.

TABLE 5 Availability of alternative fuel arrangements—survey respondents

	<i>Firm gas users</i>		<i>Interruptible gas users</i>	
	<i>Commercial</i>	<i>Industrial</i>	<i>Commercial</i>	<i>Industrial</i>
With alternative	22	50	10	30
Alternative technically possible	45	71		
No alternative	21	25		
Total	88	146	10	30

Source: MMC Survey.

### Summary of information provided by gas supply organisations in Belgium, Italy, the Netherlands and West Germany

#### Belgium

1. The principal supplier of gas in Belgium is Distrigaz. Distrigaz imports gas into Belgium and delivers gas both to distribution companies and to large industrial customers. An independent body called the 'Comite de Controle de l'Electricite et du Gaz' supervises the gas supply industry as a whole and makes recommendations on gas pricing.

2. We were supplied with details of the formulae which are used for setting firm and interruptible industrial gas prices in Belgium. Firm gas prices charged to industrial customers using more than about 320,000 therms per annum are related to: maximum hourly offtake, annual consumption, the frontier price of gas, a coefficient which links the price of gas to the type of use to which gas is put, and a price escalation index. Similar price formulae are applied to interruptible gas; alternatively interruptible gas prices may be negotiated individually with customers on a monthly basis.

#### Italy

3. In Italy the state-owned company SNAM, which forms part of the Ente Nazionale Idrocarburi (ENI) group, is the principal supplier of gas to large industrial customers. SNAM also supplies gas to local distributors.

4. Prices charged to large industrial customers (consuming more than about 72,000 therms per annum) are based on published formulae which are agreed jointly by SNAM and the Federation of Italian Industry (CONFIDUSTRIA). Firm gas prices are linked to offtake, load factor, the price of HFO and an inflation index. Interruptible gas prices are linked principally to the price of HFO. In addition both firm and interruptible gas prices contain a seasonal differential. ENI told us that interruptible supplies of gas are offered only to customers who use more than about 340,000 therms per annum and who have facilities to allow use of an alternative fuel during periods of interruption.

#### The Netherlands

5. The principal supplier of gas in the Netherlands is Gasunie. Gasunie sells gas to large customers as well as to a number of local gas distribution companies. It told us that its tariff for firm gas supplied to industrial customers using more than about 58,000 therms per annum is based on a series of volume-related price 'zones'. Within each zone the price of gas is linked to HFO prices. We were told that no load factor charge is applied.

#### West Germany

6. Gas supply companies in West Germany can be divided into three broad groups. First, there are a number of companies which produce indigenous natural gas. Second, there are 13 gas transmission companies which are owned principally by the major oil companies. These gas transmission companies control most of the country's imports and sell direct to large users; the most important supplier is Ruhrgas. Third, several hundred local gas distributors supply gas to domestic consumers and other small users.

7. Ruhrgas told us that gas prices charged to large industrial customers in West Germany are not subject to regulation and are determined by individual negotiation. Ruhrgas told us that firm gas prices broadly reflect the cost of alternative fuels, in particular HFO and gas oil, and that there is no fixed differential between firm and interruptible gas prices.

APPENDIX 6.1  
(referred to in paragraph 6.1)

**List of those parties which gave evidence and which  
were willing to be named**

Allied Breweries Limited  
Arthur Lee & Sons plc  
Associated Gas Supplies Ltd\*  
Associated Heat Services Plc\*  
Barworth Flockton Ltd  
Belgian Energy Secretariat  
Blue Circle Industries PLC  
British Ceramic Confederation\*  
British Forging Industry Association  
British Foundry Association  
British Independent Steel Producers Association\*  
British Maize Refiners Association  
British Management Data Foundation\*  
British Rolling Mills Limited  
British Salt Limited  
Chemical Industries Association Limited\*  
City of Birmingham Supplies Organisation  
Combined Heat and Power Association  
Confederation of British Industry  
Courtaulds Plc  
DRG (UK) Ltd  
Dairy Crest Ltd  
Department of Energy\*  
Department of Trade and Industry  
Energy Intensive Users Group  
Engineering Employers' Federation  
Ente Nazionale Idrocarburi (Italy)  
Food and Drink Federation\*  
Gas Consumers Council\*  
Grand Metropolitan Brewing Ltd  
Hampshire County Council Suppliers Office  
Imperial Chemical Industries PLC\*  
Innes Lee Industries Ltd\*  
International Computers Ltd  
Johnson Matthey PLC  
Kronospan Ltd  
J B & S Lees Ltd  
London Underground Limited  
Major Energy Users' Council\*  
Marks & Spencer PLC  
Marlborough Technical Management PLC  
Mars GB Limited  
Mason Cash & Company Limited  
Mobil North Sea Limited  
Nederlandse Gasunie NV  
National Health Service\*  
National Industrial Fuel Efficiency Service Ltd  
Nestlé Company Ltd  
Norsk Hydro Fertilisers Limited  
Office of Gas Supply\*  
Pauls Malt Limited  
Pirelli Limited  
Post Office Corporation  
Redland Bricks Limited  
Reed Paper & Board UK Limited  
Remploy Limited

**Professor Colin Robinson\***  
**Ruhrgas Aktiengesellschaft**  
**Scott Limited**  
**Sheerness Steel Company plc**  
**Sheffield Forgemasters Ltd\***  
**Stakis Hotels and Inns Ltd**  
**The Standard Wire Co Ltd**  
**Steetley PLC**  
**Allen Sykes\***  
**Templeborough Rolling Mills Limited**  
**Texaco North Sea UK Ltd**  
**Thorn EMI**  
**Travis Morgan Economics Ltd**  
**UKF Fertilisers Ltd\***  
**Union Carbide UK Limited**  
**University of Liverpool Energy Co Ltd**

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\*The Commission held hearings with these organisations and independent experts.



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