

APPENDIX 1.1
(referred to in paragraphs 1.1 and 2.2)

The references

1. On 31 July 1992 the Director General of Gas Supply sent to the MMC the following reference.

Reference by the Director General of Gas Supply to the Monopolies and Mergers Commission under section 24 of the Gas Act 1986

1. The Director General of Gas Supply, in exercise of the power conferred upon him by section 24(1) of the Gas Act 1986 (c.44) (hereafter called 'the Act'), hereby makes a reference to the Monopolies and Mergers Commission requiring them to investigate and report on the following questions-

- (a) whether the operation by British Gas public limited company (hereafter called 'British Gas') of its pipe-line system and other facilities used for the conveyance and storage of gas as part of the Gas Supply Business operates or may be expected to operate against the public interest; and
- (b) if so, whether the effects adverse to the public interest which the matter specified in sub-paragraph (a) above has or may be expected to have could be remedied or prevented by modifications of the conditions of the authorisation.

2. The Director General of Gas Supply, in exercise of the power conferred upon him by section 24(3)(a) of the Act, hereby specifies in the Schedule to this reference, for the purpose of assisting the Monopolies and Mergers Commission in carrying out the investigation on this reference, the effects adverse to the public interest which, in his opinion, the matter specified in paragraph 1(a) above has or may be expected to have.

3. In this reference-

'the authorisation' means the authorisation dated 28th July 1986 which has effect as if granted under section 7 of the Act to British Gas;

'Gas Supply Business' has the same meaning as in the authorisation.

4. The report on this reference shall be made within the period of six months beginning with the date of this reference.

31 July 1992

(signed) JAMES MCKINNON
Director General of Gas Supply

SCHEDULE

EFFECTS ADVERSE TO THE PUBLIC INTEREST

1. The absence of provision for the establishment of an independent undertaking to operate the pipe-line system and other facilities used by British Gas for the conveyance and storage of gas which would not be subject to conflicting interests in securing-

- (a) transparency of the prices charged, the costs incurred and the operating methods used in

respect of the conveyance and storage of gas;

- (b) proper allocation to various parts of the Gas Supply Business of costs incurred and returns received by that business; and
- (c) protection of information relating to the conveyance and storage of gas from which British Gas might obtain unfair commercial advantage,

and thereby avoid the restriction or distortion of competition between British Gas and other persons whose business consists of or includes the supply of gas.

2. The absence of enforceable requirements imposed on British Gas in relation to the conveyance and storage of gas calculated to secure effective competition between persons whose business consists of or includes the supply of gas pending the establishment of such undertaking as is described in paragraph 1 above.

2. Shortly thereafter on 10 August 1992 he sent the following further reference:

Reference by the Director General of Gas Supply to the Monopolies and Mergers Commission under section 24 of the Gas Act 1986

1. The Director General of Gas Supply, in exercise of the power conferred upon him by section 24(1) of the Gas Act 1986 (c.44) (hereafter called 'the Act'), hereby makes a reference to the Monopolies and Mergers Commission requiring them to investigate and report on the following questions-

- (a) whether the exercise by British Gas public limited company (hereafter called 'British Gas') of its function as a public gas supplier within the meaning of section 7(1) of the Act of fixing tariffs for the supply of gas in accordance with section 14 of the Act, restricted only by conditions 3 and 4 of the authorisation dated 28th July 1986 which has effect as if granted under section 7 of the Act to British Gas operates, or may be expected to operate, against the public interest; and
- (b) if so, whether the effects adverse to the public interest which the matter specified in sub-paragraph (a) above has or may be expected to have could be remedied or prevented by modifications of the conditions of the authorisation.

2. The report on this reference shall be made within the period of six months beginning with the date of this reference.

10 August 1992

(signed) JAMES MCKINNON
Director General of Gas Supply

3. Subsequently, the Director extended the period for reporting on the references to 30 July 1993. On 31 July 1992 the Secretary of State for Trade and Industry also sent two references to the MMC: the first into the existence or possible existence of a monopoly situation concerning the supply within Great Britain of gas through pipes to tariff and non-tariff customers; and the second concerning the supply within Great Britain of the services of the conveyance or storage of gas by public gas suppliers. Full details of these references are contained in Volume 1, Appendix 1.1, of the Fair Trading Act report.

4. The composition of the Group of members of the MMC which was responsible for the present investigation and report is indicated in the list of members in the preface to this report. We also took the opportunity to discuss a number of points with the Chairman of the MMC, Mr G D W Odgers.

5. Notices inviting interested parties to submit evidence to the MMC were placed in:

Financial Times

Natural Gas

6. Written and oral evidence was provided by BG, OFGAS, DTI, OFT, GCC, OFFER, gas producers, gas suppliers, gas users and users' representative bodies, consumer groups, trade unions, consultants and other interested bodies and individuals. The organizations which submitted evidence are given at Annex 1.

7. During the course of our inquiry, members and staff visited BG's Easington terminal, Rough storage field, Hinckley operational centre and East Midlands Regional HQ; Shell UK's facilities in Aberdeen, its offshore co-ordination centre, its Brent Charlie Gas Platform and St Fergus Gas Plant; Caledonian Gas and its majority shareholder Scottish Power in Glasgow, Northern Gas and its joint owners Norweb and UtiliCorp in Bolton; and UtiliCorp in London. Members and staff also met with BG and OFGAS on a number of occasions.

8. We held three hearings with BG, two with OFGAS, DTI and OFT and one with the GCC and OFFER. We also held hearings with gas producers, suppliers, users and users' representative bodies, trade unions and other interested parties and those with whom we held hearings are indicated in the list in Annex 1 by an asterisk.

9. During our inquiry we were also assisted on various matters by two consultants, R J Hopper Energy Consultancy and Penspen Limited.

10. We should like to thank all those who assisted in the inquiry, particularly the representatives of BG, upon whom most of our inquiries fell.

ANNEX 1

Organizations and individuals which submitted written evidence to the MMC included:

(Representation at hearings is indicated by an asterisk.)

Abbey Life Assurance Company Limited
Abergavenny Fine Foods Ltd
Aerospace Forgings Limited
Alliance Gas Limited*
Amerada Hess Gas Limited*
Amoco (UK) Exploration Company*
ANGI Limited
Associated Gas Supplies Limited*
Associated Natural Gas Inc Ltd
Association of British Independent Oil Exploration Companies
Association of County Supplies Officers
Barclays de Zoete Wedd Securities Limited
Bass Brewers Limited
BBC Television
Bell Gas Ltd*
BhS plc
British Ceramic Confederation
British Fuel Company Ltd*
British Railways Board
British Steel plc*
British Telecommunications plc
British Waterways
Brunel University
Business in the Community
Caledonian Gas Limited*
Caminus Energy Limited
Catherine Price
Chemical Industries Association
Coca-Cola and Schweppes Beverages Limited
Combined Heat and Power Association*
Common Services Agency of the Scottish Health Service
Conoco (UK) Limited*
Crédit Lyonnais Laing
Dairy Crest Limited
Den norske stats oljeselskap a.s.
Dewsbury Civil Engineering Company Ltd
Digital Equipment Co Limited
Eastern Electricity plc
Eastern Shires Purchasing Organisation

ECC International Ltd
E C Consultants
e gas Limited
An electricity company
Elf Petroleum UK PLC
Energy Action Scotland
Energy Information Centre
Energy Intensive Users Group*
Enterprise Oil plc
Esso Exploration & Production UK Limited
External members of the Research Committee of British Gas
Flogas UK plc*
Food and Drink Federation
Frazer Pipestock Limited
Fusion Group plc
Gas-Direct Limited
Gas Higher Management Association
Gas Strategies*
Gas Transmission Limited
General, Municipal and Boilerworkers/Apex*
Gorseline Limited
Hereford and District Trades Council
Hertfordshire County Council
H J Heinz Company Limited
Hoare Govett Securities Limited
ICI Chemicals & Polymers Limited*
ICL plc
I K C Ellison
Imperial College of Science, Technology and Medicine
Institution of Gas Engineers
Jeavons Engineering Ltd
Joe Roeber Associates and Denton Hall Burgin & Warren
John Hall Associates
John Lewis Partnership
Joseph Crosfield & Sons Limited
J Sainsbury plc
Kemira Ince Limited
Kinetica Limited*
Legal & General Investment Management Limited
Local Authorities South East Region Energy Buying Group
London Electricity plc
London Underground Limited
Major Energy Users' Council*
Manweb Gas Limited
Marathon Oil UK Ltd
Mason Cash & Company Limited
Mercury Communications Ltd
Midlands Gas Ltd*
Mobil Gas Marketing (UK) Limited*
Money Advice Association
National Consumer Council
National Farmers Union
National Joint Consultative Committee for Building
National Joint Council for Gas Staff and Senior Officers*
National Power PLC*
Neighbourhood Energy Action
New Forest Growers Ltd
NHS Supplies Authority

Norsk Hydro (UK) Ltd
Northern Gas Ltd
North Sea Gas Limited
North Western Regional Health Authority
Norweb plc
Nuffield Hospitals
Peter Spring*
Phillips Petroleum Company United Kingdom Limited*
Post Office
PowerGen plc*
Procter & Gamble Limited
Professor Alan Williams
Proshare (UK) Limited
Prudential Portfolio Managers Limited
Redland Bricks Limited
Richard Green and Professor David Newbery
Right to Warmth
Rockware Glass Limited
Rolls Royce plc
Schlumberger Water and Gas UK
Sevalco Limited
Shell UK Limited*
Society of British Gas Industries
Southern Electric plc
Southern Gas Ltd
Standard Life Assurance Company
Stoves Limited
Tate & Lyle Sugars
Texaco Ltd
The British Petroleum Company plc*
The Rank Organisation Plc
Thorn EMI plc
Trolhurst plc
Tunnel Refineries Limited
UES Steels Ltd
Underdown Associates Limited
Uponor Aldyl Limited
UtiliCorp (UK) Limited*
Victaulic PLC
Volunteer Energy Limited*
W & J Knox Ltd
Western Gas Ltd
Wolverhampton Metropolitan Borough Council