

BG's undertakings to the DGFT

1. British Gas plc undertakes to the Director General of Fair Trading (DGFT) that it will use its best endeavours consistent with its statutory and contractual obligations to secure the development of genuine, self-sustaining competition in the market in Great Britain for contract gas as quickly as possible. In this context it notes that the DGFT intends to keep the development of competition in this market under review. This document constitutes the entirety of British Gas' undertaking to the DGFT.

2. British Gas commits itself to implementing the undertakings as far as lies in its power, to doing so in a constructive spirit and to seeking to bring about competition in an orderly manner in the interests of all classes of customers. It will seek to play its full part in managing the transition together with all parties involved and will consult with the DGFT on any particular points of difficulty that may arise. British Gas will, in particular, continue to ensure that it satisfies, so far as it is economical to do so, any reasonable request for a supply of gas, in terms of its overriding duty as expressed in the Gas Act 1986.

3. British Gas undertakes publicly to assure gas customers, gas producers and third party shippers of its commitment to working for an orderly transition to a competitive gas contract market and to make clear in its public statements its intent to do so within the terms of paragraph 2 above.

4. British Gas commits itself to creating the conditions by which suppliers other than British Gas should be able to supply at least 60 per cent of the gas provided in therms in Great Britain to contract customers during the calendar year 1995. It is intended for this purpose that at least 3,000m therms or 50 per cent of the contract gas market, whichever is the smaller, will be provided by such suppliers in the calendar year 1994. British Gas will not be required to buy new gas for the express purpose of release.

5. British Gas will offer those companies with which it has concluded swap contracts during 1991 for repayment commencing October 1992 the option of deferring repayment to any number of gas years up to and including 1999/2000.

6. British Gas will offer to release for purchase by suppliers to the contract gas market other than British Gas at least 500m therms for delivery in the gas year 1992/93.

7. British Gas will offer to release for purchase by suppliers other than British Gas at least 500m therms in the gas year 1993/94, at least 500m therms in the gas year 1994/95 and at least 250m therms in the gas year 1995/96.

8. British Gas will also make available for release for purchase by suppliers other than British Gas in the gas years 1993/94, 1994/95 and 1995/96 such additional quantities over and above the quantities specified at paragraph 7 above as are necessary to meet the objective set out at paragraph 4 above.

9. For the purpose of giving effect to paragraphs 4 to 8 above British Gas will co-operate with DGFT in an annual review of the extent to which competition has developed towards the objective in paragraph 4 and the likely availability of supply to British Gas' competitors with a view to reaching agreement as to the quantity of gas to be offered for release by British Gas during the next gas year on the basis of all relevant information available, in particular including the views of the Department of Energy and including British Gas' assessment of supply and demand, any independent assessments British Gas may submit and British Gas' view as to the quantity of gas it would be appropriate to release. In the absence of agreement with British Gas on the quantity to be released, the matter will be determined by the DGFT.

10. The quantity to be offered for release in each of these gas years will be determined and announced by 31st December of the year preceding the relevant gas year.

11. The terms and the conditions on which release of gas is offered will be agreed with the DGFT by no later than 30th April 1992. Details of the type of gas, including load and swing considerations and delivery points, will also be agreed with the DGFT. It will be for British Gas to arrange the release within ground rules agreed with the DGFT. Where the release does not take the form of a swap, the price will reflect the weighted average annual gas cost including levy and an element to reflect the wholesaling activity.

12. Any dispute on the terms and conditions on which release gas is offered shall be determined by the DGFT.

13. British Gas will conduct itself in negotiations for the purchase of gas in such a way as to facilitate the achievement of the objectives set out above. In particular it will use its influence with a view to ensuring that gas reserves are developed in a timely manner and made available to suppliers other than British Gas. It will consult with the DGFT about any obstacles to the development of such supplies of which it becomes aware.

14. British Gas may bring to the attention of the DGFT during the review at paragraph 9 any developments during the year which bear on the achievement of the market share target provided for in paragraph 4 above and which, in its view, may require reconsideration of that target. In particular, British Gas may notify to the DGFT:-

- (i) any requirement as a result of its statutory obligations to supply gas to specific markets or customers.
- (ii) any diversion of released gas for electrical power generation;
- (iii) any net reduction or deferment by producers of the volumes of new gas brought forward for use by suppliers other than British Gas.

If any such developments have a material overall impact British Gas will seek an appropriate adjustment to the market share target, as part of the review process.

15. British Gas will so organise its gas business in Great Britain in order to establish a Gas Transportation and Storage Unit (the Unit), on a phased basis, initially involving separate accounting and charging, to be in full operation on 1st January 1994. The Unit will be responsible for all the assets used in the conveyance of gas from the reception terminals at the beach to the meters at the final customers' premises, and also the assets used in the storage of gas. The Unit will be responsible for the activities associated with such assets, including contracts to enable others to use the assets. These activities as listed in the Appendix. The allocation of functions, assets, costs, income and the basis of transfer pricing (except that covered in paragraph 16 below) will be submitted to the DGFT by end June for agreement by end July 1992. Any subsequent change in principle will also be agreed.

16. British Gas will produce a discussion document outlining alternative pricing principles for gas transportation together with a recommendation as to its preferred pricing approach including illustrative examples of how this would be applied in practice. The document will also discuss British Gas' approach to connection and reinforcement; and its proposals regarding transitional arrangements for existing shippers. Such a discussion document will be presented in draft to the DGFT by 16th March 1992 and will be published at the end of March and British Gas will undertake a public consultation on the basis of the document during April and May 1992.

17. Taking account of all comments received, British Gas will publish a transparent pricing system for transportation on a firm and interruptible basis on 1st September 1992 for implementation on 1st October 1992 for shippers other than British Gas and 1st January 1993 for British Gas Trading. Transportation charges and connection and reinforcement policies will apply equally and even-handedly to British Gas Trading and shippers other than British Gas from 1st January 1993. In the event that there is not a satisfactory resolution of any issue arising through the public consultation process, British Gas will consult the DGFT on a revised timetable.

18. A discussion document outlining the storage services that the Unit intends to offer will be produced by 1st January 1993. In the period to 30th September 1993 British Gas will offer storage services to shippers on the basis of individually negotiated contracts.

19. The Unit will put into place arrangements to provide gas conveyance, system reinforcements and extension and site connection from 1st January 1993 on the basis of non-discrimination between British Gas Trading and shippers other than British Gas. The Unit will, similarly, put into place arrangements for storage services with British Gas Trading and other companies requiring such services from 1st October 1993. In order to fulfil its responsibilities, to maintain optimum operating conditions and to meet its statutory and contractual obligations (for example system balancing, back-up, compressor fuel and storage) it will be necessary for arrangements to be made with British Gas Trading and other independent shippers and producers to obtain gas purchasing and nomination rights. Gas will not be purchased by the Unit for re-sale to final consumers. Each seller of gas will be responsible for his own supply/demand match and for agreeing contracts with the Unit to meet his obligations.

20. The Unit will publish audited accounts for the year ending 31st December 1993 and all subsequent years. The form of the accounts will be submitted for agreement by the DGFT by end September 1992.

21. British Gas will endeavour to reach agreement with the DGFT by 31st August 1992 on the basis on which the Unit will be regulated.

22. The Unit will receive information from and provide information to those parts of British Gas involved in trading on the same basis that it deals with other shippers of gas through the system. Details of the nature and the extent and timing of the information barriers will be agreed with the DGFT by end August 1992.

23. After 1st October 1992, the Unit will use its best endeavours to provide quotations for sites above 25,000 therms per annum within five working days and, if and when it becomes appropriate, for sites below 25,000 therms within ten working days subject to:-

- (i) the shipper providing adequate information;
- (ii) the shipper providing the request in a compatible computer format, where more than 20 quotations are required;
- (iii) the number of quotations in a month not being more than double the previously prevailing monthly rate.

In the event that the pricing system introduced on 1st October 1992 is not compatible with the quotation periods British Gas will consult with the DGFT on revised timetable/quotation periods.

24. The Unit will provide quotations to British Gas Trading and shippers other than British Gas on a non-discriminatory basis.

25. It is British Gas' understanding that:-

- (i) these undertakings will be reviewed by the DGFT no later than 31st December 1995;
- (ii) the 1991 OFT Review, which has led to those undertakings, and the further reviews at paragraph 9 and sub-paragraph (i) above supersede the suggestion for a review referred to in paragraph 8.98 of the 1988 MMC Report;
- (iii) these undertakings will continue until such time as the DGFT permits them to be varied, or withdrawn, in the light of representations from British Gas that there have been material changes in circumstances or in the light of any published MMC report that impacts on the markets covered by these undertakings.

26. British Gas undertakes to notify the DGFT of any intended FI and MT schedule price changes and to do so other than in exceptional circumstances at least two weeks before such changes are publicly announced and to provide such supporting documentation as the DGFT may reasonably request. British Gas also undertakes to provide information on the profitability of the trading element of British Gas' firm and interruptible contract market sectors and such other information as the DGFT may reasonably request.

27. In these undertakings:-

- (i) 'contract gas' means all gas supplied through pipes in Great Britain to consumers pursuant to special agreements concluded under s. 14(4) Gas Act 1986 except for all gas supplied for electrical power generation, natural gas vehicles, and for feedstocks as exempted from the schedule regime by the Authorisation. The 'contract gas market' means the market for all such contract gas;
- (ii) market share will be calculated by reference to the total number of therms of gas delivered and estimated to be delivered to end-users during the period in question;
- (iii) 'gas year' means the twelve-month period starting on 1st October;
- (iv) 'swap' means an arrangement whereby British Gas agrees to release certain quantities of its contracted gas to another gas supplier on the terms of contract which provided for an equivalent volume of gas being returned to British Gas during a specified period;
- (v) 'release for purchase' means the making available for competitors by whatever means including swaps;
- (vi) 'the Unit' means the Gas Transportation and Storage Unit set up under the terms of paragraph 15;
- (vii) 'British Gas Trading' for the purpose of these undertakings means the Gas Business excluding 'the Unit' defined in (vi).