

PRIME MINISTER

GAS BILL

As you know, the Gas Bill has its Second Reading on Tuesday. I have been encouraged by the reaction of our supporters and the helpful line taken by the CBI.

We are likely to be severely criticised if we do not have on the table for that Debate fuller details of our proposals for protecting customers by means of the price control system and through other specific terms and conditions. I, therefore, propose to publish on Monday the attached draft Licence. This is in accordance with the proposals set out in E(A)(85)65 which were discussed at E(A)(85)20th meeting.

I intend to make clear to the House that views expressed during the passage of the Bill both by Parliament and by interested outside bodies will be carefully considered before the Licence is finalised. I will probably also make clear in general terms in my Second Reading speech that BGC have agreed to give undertakings on matters such as the contract market.

I am copying this minute to E(A) colleagues and to Sir Robert Armstrong.

SECRETARY OF STATE FOR ENERGY

6 December 1985

DEPARTMENT OF ENERGY

PROPOSED AUTHORISATION

to be granted by

THE SECRETARY OF STATE FOR ENERGY

to

THE BRITISH GAS CORPORATION

under

SECTION 7 OF THE GAS BILL

TABLE OF CONTENTS

	<u>Page</u>
<u>THE AUTHORISATION</u>	[1
<u>SCHEDULE 1: Conditions of Authorisation</u>	2
1. Interpretation and Construction	2
2. Separate Accounts for Gas Supply Business	4
3. Restriction of gas prices to tariff customers	7
4. Standing charges	19
5. Pricing for contract customers	20
6. Connection charges	21
7. Provision of information to the Director	22
8. Provision of information to the Gas Users' Council	23
9. Conveyance of gas for others	24
10. Supply of back-up gas	25
11. Emergency service	26
12. Codes of Practice for tariff gas supplies and payment of bills	27
13. Supply to public lamps	28
14. Payment of fees	29
<u>SCHEDULE 2: Revocation of Authorisation</u>	30
<u>ANNEX "A": Gas Supply Business</u>	32]

PROPOSED AUTHORISATION TO BE GRANTED TO THE BRITISH GAS CORPORATION TO
SUPPLY GAS THROUGH PIPES AS A PUBLIC GAS SUPPLIER UNDER SECTION 7 OF
THE GAS BILL

1. The Secretary of State, in exercise of the powers conferred on him by section 7 of the Gas Bill (in this Authorisation referred to as "the Act"), hereby authorises the British Gas Corporation (in this Authorisation referred to as "the Supplier") to supply gas through pipes to any premises in Great Britain during the period specified in paragraph 2 below, subject to the Conditions set out in Schedule 1 hereto and to revocation in accordance with Schedule 2 hereto.
2. This Authorisation shall come into force on the day appointed under section 3 of the Act for the purposes of Part I of the Act and shall continue in force for a period of 25 years and thereafter unless determined at or after the expiry of that period of 25 years by notice in writing served by the Secretary of State on the Supplier on a day at least 10 years before the notice is to take effect.

, 1986.

SECRETARY OF STATE FOR ENERGY

SCHEDULE 1: Conditions of Authorisation

Condition 1: Interpretation and Construction

1. Unless the contrary intention appears words and expressions used in these Conditions shall be construed as if they were in an Act of Parliament and the Interpretation Act 1978 applied to them and references to an enactment shall include any statutory modification or re-enactment thereof after the date when this Authorisation comes into force.

2. Any word or expression used in these Conditions shall, unless the contrary intention appears, have the same meaning as it has in Part I of the Act.

3. In these Conditions unless the context otherwise requires -

"associated company" shall include any subsidiary of the Supplier and any body corporate which would be treated as controlled by the Supplier for the purposes of paragraph 38(4) of Schedule 2 to the Petroleum and Submarine Pipe-lines Act 1975.

"Auditor" means the Supplier's auditor or auditors for the time being holding office in accordance with the requirements of the Companies Act 1985.

"gas" means, in Conditions 2 and 3 and in Annex "A", any substance which is or (if it were in a gaseous state) would be gas within the meaning of Part I of the Act.

"Gas Supply Business" has the meaning given by Annex "A".

"Point of Delivery" means the point at which gas, whether acquired by the Supplier from another person or produced or manufactured by it is, after such treatment as may be necessary to render it of suitable quality for entry into the Transmission

System, first metered by the Supplier upon entry into the Transmission System.

"Relevant Year" has the meaning given in Condition 3.

"Retail Price Index" means the General Index of Retail Prices compiled by the Department of Employment in respect of all items provided that if there is a material change in the basis of the Retail Price Index there shall be substituted such basis to take account of the change or such other index as the Director, after consultation with the Supplier, may determine to be appropriate in the circumstances.

"Tariff Revenue" has the meaning given in Condition 3.

"third-party supplier" means a person for whom the Supplier is conveying gas through its pipelines.

"Transmission System" has the meaning given in Annex "A".

4. In construing these Conditions the heading or title of any Condition shall be disregarded.
5. Where, in these Conditions, any obligation of the Supplier is required to be performed within a specified time limit that obligation shall be deemed to continue after that time limit if the Supplier fails to comply with that obligation within that time limit.

Condition 2: Separate Accounts for Gas Supply Business

1. This Condition applies for the purpose of ensuring that the Supplier maintains accounting and reporting arrangements which enable separate accounts to be prepared for the Gas Supply Business showing the financial affairs of that business.
2. The Supplier shall -
 - (a) keep proper books of accounts and records in such a form that the transactions, assets and liabilities of, or reasonably attributable to, the Gas Supply Business are separately identifiable in the books of the Supplier from any other business of the Supplier;
 - (b) prepare on a consistent basis from its accounting records in respect of -
 - (1) the first six months of each financial year of the Supplier a report on the profit or loss of the Supplier's Gas Supply Business; and
 - (2) each financial year of the Supplier accounting statements (comprising a profit and loss account and a statement of assets and liabilities with the details reasonably necessary to reconcile the net assets shown in that statement at the beginning and at the end of that year), setting out and fairly presenting the costs (including depreciation), revenue, assets employed and liabilities, all as may be reasonably attributable to the Gas Supply Business and showing separately and in appropriate detail the amounts of any revenue, cost, asset or liability which has been either -
 - (i) charged from or to any other business of the Supplier; or

- (ii) determined by apportionment between the Gas Supply Business and any other business of the Supplier

together with a description of the basis of the charge or apportionment;

- (c) procure, in respect of each set of accounting statements prepared in accordance with this Condition in respect of each financial year of the Supplier, a report by the Auditor and addressed to the Director stating whether in his opinion that set of accounting statements is adequate for the purposes of, and is in compliance with, this Condition and represents a true and fair view of the profit or loss and financial position of the Gas Supply Business; and
 - (d) deliver to the Director a copy of the reports referred to in sub-paragraph (b)(1) and (c) above and of the accounting statements referred to in sub-paragraph (b)(2) above as soon as reasonably practicable and in any event not later than two months after the end of the period to which it relates in the case of the report referred to in sub-paragraph (b)(i) and six months after the end of the financial year to which they relate in the case of the accounting statements and Auditor's report.
3. Save with the prior written approval of the Director, which shall not be unreasonably withheld and which shall be deemed to be granted unless refused within two months after an application from the Supplier, the Supplier shall not in relation to the accounting statements in respect of a financial year change the basis of charge or apportionment respectively referred to in paragraph 2(b)(2) above from that used in respect of the previous financial year.
4. Accounting statements in respect of a financial year prepared under paragraph 2(b) above shall, so far as reasonably practicable having regard to the purposes of this Condition -

- (a) have the content (in relation to the Gas Supply Business) and be prepared in accordance with the general rules and format and shall use the same accounting principles and rules applicable to the annual accounts of the Supplier prepared under section 227 and, if appropriate, section 229 of the Companies Act 1985;
- (b) state the accounting policies used; and
- (c) (with the exception of the amounts and the basis of charge or apportionment respectively referred to in paragraph 2(b)(2) above) be published either with the annual accounts of the Supplier or in such other way as will bring its contents to the attention of customers and prospective customers of gas generally.

Condition 3: Restriction of gas prices to tariff customers

1. The Supplier shall in setting its prices for tariff customers take all reasonable steps, having particular regard to the interests of those customers, to secure that in each Relevant Year its Average Price per therm shall not exceed the Maximum Average Price per therm calculated in accordance with the following formula -

$$M_t = \left(\frac{1 + RPI_t - X}{100} \right) P_{t-1} + Y_t - K_t$$

where

M_t = Maximum Average Price per therm in Relevant Year t;

RPI_t = the percentage change (whether of a positive or negative value) in the Retail Price Index between that published with respect to October in Relevant Year t and that published with respect to the immediately preceding October;

X = [value to be determined];

$$P_{t-1} = P_{t-2} \left(1 + \frac{RPI_{t-1} - X}{100} \right)$$

but, in relation to the first Relevant Year, P_{t-1} (and, accordingly, in relation to the second Relevant Year, P_{t-2}) shall have a value of [] per therm;

Y_t = Allowable Gas Cost per therm in Relevant Year t;

K_t = the correction per therm (whether of a positive or negative value) to be made in Relevant Year t (other than the first Relevant Year) which is derived from the following formula -

$$K_t = \frac{T_{t-1} - (Q_{t-1} M_{t-1})}{Q_t} \left(1 + \frac{I_t}{100} \right)$$

in which

T_{t-1} = Tariff Revenue from Tariff Quantity in Relevant Year t-1;

Q_{t-1} = Tariff Quantity in Relevant Year t-1;

Q_t = Tariff Quantity in Relevant Year t;

M_{t-1} = Maximum Average Price per therm in Relevant Year t-1;

I_t = the interest rate in Relevant Year t which is equal to, where K_t (taking no account of I_t for this purpose) has a positive value, the Specified Rate plus three per cent. or, where K_t (taking no account of I_t for this purpose) has a negative value, the Specified Rate.

The subscript t represents the Relevant Year and the first Relevant Year shall be the year ending 31st March [198].

2. In this Condition -

"Allowable Gas Cost" means the aggregate of the following amounts namely -

(1) the amounts paid or payable by the Supplier at any time to each vendor of gas (not being an associated company) -

(a) for, and wholly and exclusively related to, the quantity of gas delivered to the Supplier in the Relevant Year for the Supplier's Gas Supply Business (being payments of purchase price in pounds sterling, or, if not in pounds sterling, converted to pounds sterling at the spot rate of exchange in London for purchasing the relevant foreign currency as quoted by

Barclays Bank plc at the close of business on the date of payment thereof); or

(b) as Capacity Charges in respect of the Relevant Year,

but -

(i) excluding any payments of interest and of any other amount payable by the Supplier because of any failure by the Supplier to perform its obligations or make any payment to vendors under its contract to purchase the gas so delivered;

(ii) deducting, where payment for gas is due more than 30 days after the end of the month of its delivery, a sum equal to the interest on the price of the gas for the period from 30 days after the end of the month of delivery to the date of payment, at the Specified Rate.

(2) (a) where, under the terms of a contract with a vendor of gas (not being an associated company), the Supplier has made a payment ("initial payment") with respect to gas not taken by it before the Relevant Year and, in that Relevant Year, the Supplier either takes gas by reason, wholly or partly, of that initial payment or, having taken gas in that Relevant Year for which consideration has been paid or would otherwise be payable, is allowed a credit by reason, wholly or partly, of that initial payment (provided that the consideration which has been paid, or which would otherwise be payable, has not been included under paragraph 2(1) above):-

(i) the amount of that initial payment to which the gas so taken is attributable; and

(ii) an amount representing interest on that payment compounded annually from the date of payment

calculated at the Specified Rate for the period beginning with that date and ending on the last day of the month in which the gas is taken or, as the case may be, the credit is allowed (and for this purpose payments and gas taken by reference to them shall be treated on a first in/first out basis);

- (b) where any initial payment has been made by the Supplier and, in the Relevant Year, either the terms of the contract have the effect, or it is shown to the reasonable satisfaction of the Director, that any gas will not be available for delivery, or credit which might otherwise have been allowed to the Supplier by reason wholly or partly of that payment will no longer be allowed, such amount over such period as the Director, after consultation with the Supplier, shall determine is a fair amount to be included in respect of any one or more Relevant Years;
- (3) where any gas which is delivered to the Supplier is purchased by it for a consideration which is not wholly pecuniary or where gas and anything other than gas are purchased as part of the same transaction or arrangement by the Supplier, the amount which the Supplier demonstrates to the reasonable satisfaction of the Director would be the pecuniary consideration for the gas if negotiated at arm's length as between a willing vendor and a willing purchaser;
- (4) where gas is purchased otherwise than at the Point of Delivery, such amount as is demonstrated to the reasonable satisfaction of the Director is or would be payable by the Supplier under a third party contract negotiated at arm's length for transporting the gas to the Point of Delivery and for any processing or treatment of the gas which is necessary to render it of suitable quality for entry into the Supplier's Transmission System;

- (5) (a) where the Supplier in a Relevant Year appropriates to the Gas Supply Business gas which it produced itself or which it acquired from an associated company ("Own Gas"), the Supplier shall furnish to the Director as soon as practicable after the end of that year a written statement of the amount which the Supplier shall certify to the best of its information, knowledge and belief represents no more than the market value (as defined in the Oil Taxation Act 1975) of such gas, together with an explanation of how any such amount has been arrived at and the amount so certified may be included as an Allowable Gas Cost on an interim basis provided it is not greater than the amount with respect thereto included or to be included (either on a provisional or final basis) by the Supplier or associated company in its return to the Oil Taxation Office of the Inland Revenue (or such other department of the Inland Revenue as is appropriate) but if it is greater, the lower amount shall be included;
- (b) in the event of it being ascertained by the Oil Taxation Office of the Inland Revenue in agreement with the Supplier, or determined in legal proceedings, that the market value of any Own Gas for the purposes of the Oil Taxation Act 1975 (or, in the case of Own Gas the subject of a tax exempt contract, as defined in section 1(3) of the Gas Levy Act 1981, by any department of the Inland Revenue in agreement with the Supplier, or in legal proceedings, that the market value of any Own Gas for any other tax purposes) is different from the amount permitted by sub-paragraph (a) above to be included on an interim basis for the purposes of the Allowable Gas Cost, the difference shall be reflected in an appropriate manner in the Allowable Gas Cost for the purposes of the formula described in paragraph 1 above and reported by the Supplier to the Director promptly after it has been ascertained or determined;

- (6) an amount equal to the gas levy payable to the Secretary of State by the Supplier under the Gas Levy Act 1981 in respect of the aggregate quantity of gas of which account is to be taken for the purposes of calculating the amounts referred to in sub-paragraphs (1), (2), (3) and (5) above;
- (7) any amount (whether or not similar to or different from expenditure of the kinds or amounts previously mentioned) which, after written application by and consultation with the Supplier is determined by the Director to be a cost of gas acquired by the Supplier for the Supplier's Gas Supply Business or to be a cost otherwise fairly related to the gas acquired,

but no amount shall be a component of Allowable Gas Cost both under sub-paragraph (7) above and any other of the preceding sub-paragraphs or under more than one of those sub-paragraphs and for the purposes of this definition of "Allowable Gas Cost", the delivery of gas shall be treated as taking place at the Point of Delivery.

"Allowable Gas Cost per therm" means the Allowable Gas Cost in the Relevant Year divided by the Relevant Quantity in the Relevant Year.

"Average Price per therm" means Tariff Revenue in the Relevant Year divided by the Tariff Quantity of gas supplied in that Relevant Year.

"Capacity Charges" means any amounts which are of a recurring nature and are paid or payable by the Supplier in respect of the Relevant Year to a vendor of gas in order to reserve the availability to the Supplier of deliveries of gas in the year to which the amounts relate but not being any amounts which would fall to be treated in whole or in part as an advance payment (directly or indirectly) for gas.

"Relevant Quantity" means the aggregate of the following namely -

- (1) the quantity of gas in therms delivered to the Supplier in the Relevant Year and purchased by it (otherwise than from an associated company) for the Supplier's Gas Supply Business being calculated where the price of gas is fixed by reference to an agreed calorific value, using that value, but if the agreed calorific value used in determining the price of the gas differs from the calorific value as measured, the Supplier shall give written notification to the Director of the amount of the difference;
- (2) the quantity of Own Gas in therms appropriated by the Supplier in the Relevant Year to the Supplier's Gas Supply Business other than gas from the Rough reservoir.

"Relevant Year" means each complete financial year of the Supplier ending on 31st March in respect of which the Supplier is required to deliver to the Director a copy of each of the accounting statements referred to in paragraph 2(b) of Condition 2.

"Specified Rate" means the average of the Treasury Bill Discount Rate (expressed as an annual percentage interest rate), published weekly by the Bank of England, during the period in respect of which the calculation falls to be made.

"Tariff Quantity" means the aggregate quantity of gas, in therms, supplied by the Supplier to tariff customers in the Relevant Year and taken into account for the purposes of determining Tariff Revenue.

"Tariff Revenue" means the turnover (measured on an accruals basis and including standing charges) derived from the supply of gas in the Relevant Year to tariff customers falling within the ordinary activities of the Gas Supply Business, after deduction

of value added tax (if any) and any other taxes based directly on the amounts so derived.

3. (1) If in respect of any Relevant Year the Average Price per therm exceeds the Maximum Average Price per therm by more than 4 per cent. of the latter, the Supplier shall furnish an explanation to the Director and in the next following Relevant Year the Supplier shall not effect any increase in prices unless it has demonstrated to the reasonable satisfaction of the Director that the Average Price per therm would not be likely to exceed the Maximum Average Price per therm in that next following Relevant Year;
 - (2) if, in respect of any two successive Relevant Years, the sum of the amounts by which the Average Price per therm has exceeded the Maximum Average Price per therm is more than 5 per cent. of the Maximum Average Price per therm for the second of those years, then in the next following Relevant Year the Supplier shall, if required by the Director, adjust its prices such that the Average Price per therm would not be likely, in the judgement of the Director, to exceed the Maximum Average Price per therm in that next following Relevant Year;
 - (3) if in respect of each of two successive Relevant Years the Average Price per therm is less than 90 per cent. of the Maximum Average Price per therm, the Director, after consultation with the Supplier, may direct that, in calculating K_t in respect of the next following Relevant Year, there shall be substituted for T_{t-1} in the formula set out in paragraph 1 above such figure as the Director may specify being not less than T_{t-1} and not more than $0.90 (Q_{t-1}^M T_{t-1})$.
4. (1) Where the Supplier publishes any change in the price of gas (which shall include any change in standing charges) which it proposes to make to tariff customers, the Supplier shall

not later than the time of such publication provide the Director with -

- (a) a written forecast of the Maximum Average Price per therm, together with its components, in respect of the Relevant Year in which the change of price of gas is to take effect and also in respect of the next following Relevant Year; and
 - (b) a written estimate of the Maximum Average Price per therm, together with its components, in respect of the Relevant Year immediately preceding the Relevant Year in which the change in price of gas is to take effect unless a statement complying with paragraph 4(5) below in respect of that first mentioned Relevant Year has been furnished to the Director before the publication of the proposed change in gas price;
- (2) if within three months of the commencement of any Relevant Year the Supplier has not published or effected any change in price as is referred in sub-paragraph (1) above the Supplier shall provide the Director with a written forecast of the Maximum Average Price per therm, together with its components, in respect of that Relevant Year;
- (3) any forecasts as aforesaid shall be accompanied by such information as regards the assumptions (such as economic growth, exchange rate changes and energy prices) which are critical features thereof as may be necessary to enable the Director to be reasonably satisfied that the forecasts have been properly prepared on a consistent basis;
- (4) not later than 6 weeks after the end of a Relevant Year the Supplier shall send to the Director a statement as to whether or not in its opinion paragraph 3(1), (2) or (3) applies in respect of that Relevant Year and its best

estimate of what K is likely to be in the following Relevant Year;

(5) not later than 3 months after the end of a Relevant Year the Supplier shall send to the Director a statement, in respect of that Relevant Year, showing -

(a) Allowable Gas Cost;

(b) Relevant Quantity;

(c) Tariff Revenue;

(d) Tariff Quantity;

(6) The statement referred to in sub-paragraph (5) above shall be -

(a) accompanied by a report from the Auditor that in his opinion such statement fairly presents Allowable Gas Cost, Relevant Quantity, Tariff Revenue and Tariff Quantity in accordance with the requirements of this Condition and that the amount of Tariff Revenue and, so far as applicable, the amount included as Allowable Gas Cost are in accordance with the Supplier's accounting records which have been maintained in accordance with Condition 2; and

(b) certified by a director of the Supplier that no amount included within Allowable Gas Cost represents other than bona fide consideration for gas delivered for use in Gas Supply Business or an amount permitted under this Condition to be so included;

provided that where any element of Allowable Gas Cost requires to be determined by, or to the satisfaction of the Director or is subject, under paragraph 2(5)(b) of this

Condition, to adjustment, and the determination or adjustment has not been made by the date when the statement under this paragraph is sent to the Director, that statement and the report and certificate in respect of it may be qualified accordingly.

5. (1) This Condition shall apply so long as this Authorisation continues in force but shall cease to apply if -
 - (a) the Supplier delivers to the Director a written request ("disapplication request") made in accordance with sub-paragraph (2) below and the Director agrees in writing to the disapplication request; or
 - (b) its application is terminated by notice given by the Supplier in accordance with either paragraph (3) or paragraph (4) below;
- (2) any disapplication request shall be in writing, addressed to the Director, and shall state the date ("disapplication date") from which the Supplier wishes the Director to agree that this Condition shall cease to apply, but the disapplication date therein stated shall not be before whichever is the later of 1st April 1992 and any date which is less than 18 months after the date upon which the disapplication request is delivered to the Director;
- (3) if the Director has not made a reference to the Monopolies Commission under section 24 of the Act relating to the modification of this Condition before the beginning of the period of 12 months which will end with the disapplication date, the Supplier may deliver written notice to the Director terminating the application of this Condition with effect from the disapplication date or a later date;
- (4) if the Monopolies Commission makes a report on a reference made by the Director relating to the modification of this

Condition after a disapplication request and such report does not include a conclusion that the cessation of the application of this Condition, in whole or in part, operates, or may be expected to operate, against the public interest, the Supplier may within 30 days after the publication of the report by the Director deliver to him written notice terminating the application of the Condition with effect from the disapplication date or a later date.

Condition 4: Standing charges

1. The Supplier shall use its best endeavours to secure that from [1 April 198], the standing charges payable by tariff customers in any Relevant Year do not exceed the standing charges payable by such customers in the first Relevant Year as increased by the percentage increase in the Retail Price Index from [1 April 198] to the beginning of the Relevant Year.
2. This Condition shall apply mutatis mutandis to any change in or imposition of charges having a similar effect on a tariff customer to a standing charge.
3. This Condition shall cease to apply if Condition 3 ceases to apply.

Condition 5: Pricing for contract customers

1. The Supplier shall within three months of the date when this Authorisation enters into force publish:

- (a) a schedule of the maximum prices payable for gas supplied at that time to contract customers and shall publish further statements at the time of any changes to those maximum prices; and
- (b) a general statement of the Supplier's policy as regards its willingness to enter into negotiations for prices for gas supplied to contract customers.

2. This Condition shall not apply to prices for the supply of gas in the circumstances to which Condition 10 relates.

Condition 6: Connection charges

The Supplier shall -

- (a) from time to time publish the principles upon which the connection charges payable by any person desiring to become a tariff customer will be established; and
- (b) make available to any such person upon request details of those principles.

Condition 7: Provision of information to the Director

1. Subject to paragraphs 2 and 3 below, the Supplier shall furnish to the Director, in such manner and at such times as the Director may reasonably require, such documents, accounts, estimates, returns or other information (collectively "Information") as he may reasonably require or as may be necessary for the purpose of performing the functions assigned to him by or under the Act.
2. This Condition shall not apply in respect of any function of the Director under section 23, 33 or 34 of the Act, but the Supplier shall, if requested by the Director, give reasoned comments on the accuracy (so far as it relates to the Gas Supply Business) and text of any information or advice which the Director proposes to publish pursuant to section 34 of the Act.
3. This Condition shall not require the Supplier to furnish any Information in relation to an enforcement matter which it could not be compelled to produce or give under section 37 of the Act.
4. Where, under any other Condition of this Authorisation, the Supplier is or can be required to provide Information to the Director there shall be a presumption that the provision of that Information in accordance with that Condition is sufficient for the relevant purposes of that Condition but this presumption shall be rebutted, and shall not limit the right of the Director to call for further information pursuant to paragraph 1 above, if he states in writing that in his opinion such Information is or is likely to be necessary to enable him to exercise those functions.

Condition 8: Provision of information to the Gas Users' Council

1. The Supplier shall, within three months after the coming into force of section 2 of the Act, give to the Gas Users' Council details of its policies for the conduct of its business of supplying gas through pipes and of the general arrangements for the implementation thereof and shall inform the Council, not later than the time of publication or announcement or implementation (if no publication or announcement is made), of -
 - (a) any significant change in any of such policies and general arrangements; and
 - (b) any change in the price of gas (including standing charges), or any change in the principles of other charges for gas supply, which it proposes to make to tariff customers.
2. The Supplier shall furnish to the Gas Users' Council, at such times as the Council may reasonably require, such information on matters which are the subject of a representation to it as the Council may reasonably request for the purposes of exercising the functions assigned to it under section 32 of the Act.
3. This Condition shall not require the Supplier to furnish any information or documents in relation to an enforcement matter which it could not be compelled to produce or give to the Director under section 37 of the Act.

Condition 9: Conveyance of gas for others

1. The Supplier shall, within three months after the date on which this Authorisation enters into force, and after consulting the Director, publish by such means as it considers appropriate to bring it to the attention of persons who might wish to have gas conveyed by the Supplier's pipelines, general information for the guidance of those persons in negotiations with the Supplier for the conveyance of gas, giving examples of the prices which the Supplier would expect to be paid for such conveyance in typical circumstances, and a general description of the principal matters which the Supplier would expect to be the subject of those negotiations in such circumstances.
2. In the event of any material change in such prices and other matters, the Supplier shall, after consulting the Director, publish revised information incorporating the changes.
3. The Supplier shall make available to any person on request, and on payment of a reasonable charge, a copy of the information published from time to time pursuant to this Condition.

Condition 10: Supply of back-up gas

1. The Supplier shall, within three months after the date on which this Authorisation enters into force, publish, by such means as it considers appropriate, a statement setting out the circumstances in which the Supplier would be willing to supply gas ("back-up gas") to a third-party supplier if that third-party supplier's gas was temporarily not available.
2. The statement referred to in paragraph 1 above shall also set out the method by which the Supplier proposes to calculate the charge for supplying back-up gas, and a general description of principal matters which the Supplier would expect to be the subject of negotiations for a supply of back-up gas in the circumstances mentioned above.

Condition 11: Emergency service

1. The Supplier shall provide an effective and continuously attended service for the receipt, by telephone, of reports of escapes of gas supplied, or believed to be supplied, by the Supplier. Effective arrangements shall also be made for the receipt at the Suppliers' showrooms during their normal working hours of such reports made in person. The Supplier shall, by appropriate means secure that adequate publicity is given of the ways in which it can be contacted for the purpose of reporting such escapes.
2. The Supplier shall make available when required by any person details of its emergency service, stating that the Supplier will make safe whether by cutting of the supply of gas or otherwise free of charge all escapes of gas which it supplies and the extent to which a customer may be liable for the costs of repairs associated with an escape.
3. Where an escape of gas reported to the Supplier relates to gas supplied by any other gas supplier authorised under the Act, the Supplier shall take all reasonable steps to notify that other gas supplier of the escape as soon as practicable after the escape is reported to the Supplier.

Condition 12: Codes of Practice for tariff gas supplies and payment of bills

1. The Supplier shall, within three months after the date on which this Authorisation enters into force, publish by means it considers appropriate to bring them to the attention of tariff customers generally:-
 - (a) a Code of Practice describing the nature of service available to tariff customers in relation to gas supplied by the Supplier; and
 - (b) a Code of Practice concerning the payment of gas bills including guidance to domestic consumers if they have difficulty in paying.
2. The Supplier shall consult the Gas Users' Council and the Director about the presentation of each such Code, and about any proposed substantive revision of its presentation, prior to its publication and shall consider any representations made by the Director or the Council about the operation of the Codes.

Condition 13: Supply to public lamps

The Supplier shall supply gas to any public lamp to which, immediately before the appointed day for the purposes of section 3 of the Act, the British Gas Corporation was supplying gas under the duty imposed on it by paragraph 5 of Schedule 4 to the Gas Act 1972 in such quantities as the authority by or for whom the lamps are maintained may from time to time require.

Condition 14: Payment of fees

The Supplier shall pay the following amounts to the Secretary of State for Energy at the times stated -

- (a) on 31st March, 1987, or such earlier date as the Secretary of State shall determine upon giving the Supplier not less than [4] weeks' notice, the sum of £[] million; and
- (b) on 1st April, 1987 and on each anniversary thereof (the year beginning on each such date being hereinafter referred to as a "fiscal year") a renewal fee which shall represent a fair proportion of the costs -
 - (i) estimated by the Director as being likely to be incurred in that fiscal year in the regulation and enforcement of public gas suppliers' authorisations and in the exercise of his functions under the Act; and
 - (ii) estimated by the Director (in consultation with the Secretary of State for Trade and Industry) as being likely to be incurred by the Gas Users' Council in that fiscal year in carrying out its functions under the Act; and
 - (iii) estimated by the Director as having been incurred by the Monopolies and Mergers Commission in the preceding fiscal year following references made under section 24 of the Act concerning this Authorisation.

The renewal fee will be determined each year by the Director according to methods and/or procedures that have been disclosed in writing to the Supplier, save that the renewal fee for the fiscal year beginning 1st April, 1987 shall not exceed £[]m. and for any fiscal year beginning on or after 1st April, 1988 shall not exceed [] per cent. of the Tariff Revenue in the Relevant Year ending in

the calendar year preceding the date upon which the fee falls due for payment.

SCHEDULE 2: Revocation of Authorisation

1. The Secretary of State may at any time revoke this Authorisation by 30 days' notice in writing given to the Supplier at its registered or principal office in any of the following circumstances -
 - (a) if the Supplier agrees in writing with the Secretary of State that this Authorisation should be revoked;
 - (b) if any amount payable under Condition 14 of this Authorisation is unpaid 30 days after it becomes due and remains unpaid for a period of 14 days after the Secretary of State notifies the Supplier that the amount is overdue such notification not to be given earlier than the sixteenth day after the day on which the amount payable became due;
 - (c) if the Supplier fails to comply with a final order (within the meaning of section 28 of the Act) or a provisional order (within the meaning of that section) which has been confirmed under that section and such failure is not rectified to the satisfaction of the Secretary of State within 3 months after the Secretary of State has given notice in writing of such failure to the Supplier provided that no notice under this sub-paragraph shall be given by the Secretary of State before the expiration of the period within which an application under section 30 of the Act could be made questioning the validity of the final or provisional order or before any such application, if made, is finally adjudicated upon;
 - (d) if the Supplier fails to comply with any order made by the Secretary of State under section 56, 73, 74 or 89 of the Fair Trading Act 1973 or section 10 of the Competition Act 1980 which relates to the Gas Supply Business;

- (e) if the Supplier ceases to carry on its business as a public gas supplier;
- (f) if the Supplier, being a company formed and registered under the Companies Act 1985, -
 - (i) is unable to pay its debts (within the meaning of Section 518 of the Companies Act 1985, but subject to paragraph 2 below) or makes any agreement with its creditors generally for the composition of its debts;
 - (ii) has a receiver of the whole or any material part of its assets or undertaking appointed;
 - (iii) passes any resolution for winding up other than a resolution previously approved in writing by the Secretary of State; or
 - (iv) becomes subject to an order by the High Court for winding up.

2. For the purposes of sub-paragraph (1)(f)(i) of this Schedule, section 518(1)(a) of the Companies Act 1985 shall have effect as if for "£750" there was substituted "£250,000" or such higher figure as the Director may from time to time determine and the said section 518(1)(a) shall not apply if the demand therein referred to is being contested in good faith by the Supplier with recourse to all appropriate measures and procedures or if the demand is satisfied prior to the expiry of the notice given to the Supplier by the Secretary of State.

ANNEX "A": Gas Supply Business

1. Subject to paragraph 3 below, the Gas Supply Business means the procurement, treatment, storage, transmission and distribution by the Supplier of gas for sale and safe delivery through pipes to customers in Great Britain and the conveyance of gas for third-party suppliers and in this paragraph -

"procurement" means the acquisition of gas by the Supplier from other persons and the taking into the Transmission System of gas produced or manufactured by the Supplier;

"treatment" means the cleansing, odourisation, heating, cooling, compression, and decompression of gas and any other operation necessary to transmit gas safely through pipes to customers or to render it suitable for consumption;

"storage" means all storage of gas after its procurement by the Supplier including, after procurement, its storage by the Supplier in offshore installations;

"transmission and distribution" means the conveyance, including the provision and installation of meters and associated controls, of gas belonging either to the Supplier or to other persons;

"Transmission System" means the facilities used by the Supplier for the conveyance of gas in a gaseous state, including the storage of gas in the course of its conveyance, either within Great Britain or between any of the Supplier's offshore gas storage installations and its first place of receipt onshore Great Britain, but specifically excluding facilities for the conveyance of gas in a liquid state or for its conversion into a gaseous state.

2. For the avoidance of doubt there shall be included in the Gas Supply Business if, and to the extent that, they are undertaken by the Supplier for the purpose of such business, the following activities namely -
- (i) the design, procurement, installation, testing, commissioning, maintenance, repair, replacement and operation of any plant and machinery, including pipework and transport;
 - (ii) research and development;
 - (iii) commercial and administrative functions including -
 - planning;
 - purchasing and stores;
 - marketing and promotion of gas;
 - selling;
 - accounting and finance;
 - personnel management;
 - any other general management and administrative activities to the extent that they are undertaken by the Supplier for the purpose of the Gas Supply Business.
3. For the avoidance of doubt there shall not be included in the Gas Supply Business the following activities namely -
- (i) installation of gas appliances or supplies (from the outlet of the meter on the customer's premises) or work undertaken under the terms of a repair, maintenance or installation contract with gas customers, except for safety checks and emergency and all other work related to the Supplier's safety obligations and in pursuance of its statutory safety duties;
 - (ii) trading in gas appliances;

(iii) exploration for and production or manufacture of gas;

(iv) consultancy unless solely related to the requirements of gas supply in Great Britain.



GAS PRIVATISATION

POINTS TO MAKE

- The Gas Bill represents a major step forward in the Governments policies of freeing economic activity from unnecessary bureaucratic and political interference, and promoting wider share ownership.
- By removing the unwarranted public sector restrictions on its freedom to act as a successful commercial business we are giving the new company the opportunity to take up new challenges and to develop its activities to the benefit of consumers, employees and shareholders alike.
- We look forward to creating the opportunity for all those working in the industry and its customers to acquire a real stake and interest in British Gas' future success and prosperity.

DEFENSIVE

GAS PRICES

There is no reason to expect higher prices. There is every reason to look for improved commercial performance following privatisation and consumers will benefit accordingly. The emphasis on efficiency in the regulatory system should mean that prices are kept as low as possible.



JOBS

There is no reason to expect an adverse effect on employment. Releasing the industry from the artificial constraints of the public sector will enable it to approach its task in a fully entrepreneurial way. It will be free to develop others areas of its business and be able to make a more effective contribution to the economy as a whole.

INTERESTS OF CONSUMERS

The legislation protects the consumer by establishing a new regulatory framework to control the monopoly aspects of gas supply which places a new emphasis on efficiency for the benefit of consumers. The legislation provides for the continuation of the existing obligations to supply gas and protects the consumer against discrimination. The legislation ensures that the consumer voice is effectively in the industry heard after privatisation, by establishing a new body for the handling of consumer complaints - the Gas Users Council.

SHOWROOMS

The future of individual showrooms is a matter for the new company - the transfer of the industry will offer scope for a more commercial approach generally which should improve the chances of marginal showrooms becoming profitable. It will be in the interest of the new company to ensure that facilities are maintained for contact with customers.

SAFETY

Safety is a vital issue and I am sure the new company will recognise that it will be in their own interests to maintain British Gas's good record. The Bill provides for improvements in the Gas Safety Regime by bringing it into line with the general requirements of health and safety legislation. The new company will be obliged to continue the emergency service to deal with



escapes of gas - indeed specific obligations are being tightened up; the required response time being reduced from 24 to 12 hours and the obligation to deal with escapes being extended to both sides of the meter.

PENSIONS

The industry has its own pension funds, controlled by trustees whose position will not be changed. The new company will take over BGC's obligations to these funds and will continue to provide appropriate contributions. There is no reason why privatisation should affect pension rights.

SALES PROCEEDS

Do not wish to estimate now.

COMPETITION

The provisions of the Oil and Gas (Enterprise) Act have already opened up the possibility of competition by third parties in industrial sales. These provisions will be carried over to the new situation. History shows that competition in supplies to ordinary households does not make sense. It would be absurd in both practical and economic terms to duplicate the existing supply pipes under every street. We intend, however, to ensure that where no supply exists there are no unnecessary problems for any companies who would wish to offer one.

AREA BOARDS

Creating Area Gas Boards would not provide competition for most individual consumer who would still have only a single supplier in their area. Breaking up the present Corporation would also put at risk economies achieved through the integrated transmission and distribution system and the real advantages of central co-ordination which allow best practice to be spread rapidly through all parts of the country.



SUPPLY IN RURAL AREAS

The present obligation to continue supplying existing customers will be carried over to the new company - and will apply equally to customers in rural areas. It is not economic to lay pipelines to provide gas supplies in some remote and country areas; it will however be in the commercial interest of the company to extend its sales and area of supply as much as possible and I am sure that it will take up economic opportunities.