

GMB Response to Ofgem Consultative Document

National Grid Transco – Potential sale of Gas Network Distribution Business July 2003

The GMB is Britain's fourth largest trade union and represents workers in all parts of the gas industry including 7000 employed by Transco. The GMB is concerned over the proposed Potential sale of Network distribution business and the effects that this may have on the safety, security of supply, the emergency service, the cost of distribution and employees.

Executive Summary

It is the GMB's view that insufficient consideration has been given to the advantages and disadvantages of Transco disposing of local distribution networks and the effects that this could have on public safety. Although the proposed potential sale of Network distribution business will reduce the level of safety directly it may well do indirectly and it could result in the loss of supply to gas consumer for much longer periods of time and higher costs in the long run. It will also increase the risk of incidents.

We are of the view that further separation of gas distribution at local level could only reduce costs to the consumer if maintenance is cut and essential maintenance at that. Separation is bound to increase the need to introduce more regulation and this will need in turn further policing, as a result this will become additional costs.

These costs can only be recouped by increasing transmission charges to suppliers and in turn this would be passed on to the consumers. Or alternatively it will be recouped by making saving elsewhere and we believe that this will come from job cuts and reduced margins of safety.

We are also very concerned that the proposal does not take into consideration the detrimental effects that it may have on the existing and future employees of Transco and Local Network Operators especially those who are transferred from Transco to Local Network Operators.

We believe a consequence of these effects may result in a reduction in the numbers of employees, their skills and terms and conditions of employees which in turn will have a detrimental effect on safety and security of supply. In particular training and development will virtually cease leading to significant staff shortages.

Gas unlike the electricity industry does not fail safe and in the case of failure requires skilled and trained workforce of adequate size to deal with emergencies and to ensure security of supply.

Therefore if Ofgem decides to go down this road it must :

- Ensure the licensing of all operators takes place.
- Introduce stronger regulation of all operators.
- A rigid safety case for local distribution network operators which includes adequately sized and skilled workforce and the transfer of labour at times of emergencies which must be agreed by the HSE.
- A single public contact for gas escapes and emergencies and that should be 0800 111999 and this should be operated and staffed by Transco employee.
- Safety and emergencies including loss of supply must remain part of Transco as single operation.
- The operational and emergency workforce must remain part of Transco.
- Non operational staff that transfer to a Local Distribution Network Operator must remain part of the Lattice Group Pension Scheme.
- New employees working for the Local Distribution Network Operator must have the opportunity to join the Lattice Group Pension Scheme.
- Transco must remain the network operator of last resort.

Overview

In the case of supply failure gas requires immediate action and in the case of supply failure every consumer to be visited twice. Once to ensure the supply has been made safe and a second time to restore the supply safely. This requires a large number of properly trained skilled staff to undertake this process. It is our concern that any one local network operator would not have sufficient staff on its pay roll to respond to a serious emergency or loss of supply in its area.

The gas industry has on a number of occasions failed to restore the supply quickly enough after failure leaving consumers without heating, hot water and cooking. This has included incidents at Finchley and, Luton. This has been due to a number of factors which have included insufficient skilled staff to undertake the task and the inability to decide whose problem these failures are and who pays the cost of restoration. These problems have caused unnecessary delays in restoring supplies on a number of occasions.

The electricity sector which is quoted as an example is no better in that it has failed to restore supply quickly enough on a number of occasions after loss of supply especially during times of bad weather. The electricity supply industry was the subject of a very critical report by Ofgem over the length of time it took to restore supplies after the bad weather of October 2002 resulting in three companies paying out £1.8m in compensation almost one year latter.

The previous break up, sale and deregulation of the gas industry during the 1990s resulted in the large shortage of skilled employees as no part of the newly separated gas industry saw that it was its role to train and recruit skilled employees for the future. This situation is now after some eight years being resolved by the efforts of the Gas and Water

Industry Training Organisation (GWINTO) who have had to put huge resources into the industry re-establish to quality training standards and qualifications for the industry. We are concerned that history will repeat itself with the sale of local distribution networks.

This view is reinforced by the evidence from the GWINTO analysis that the SME sector does not effectively contribute to the skills replacement programme in the gas industry. If they do not who will ?

Safety Case

We are of the view that a clear and strong safety case for operators of each local distribution network operator must agreed by the HSE. This must include as a requirement that all network operators must cooperate in times of emergencies and large incidents.

We are of the view that further separation of the gas distribution at local level can only reduce costs to the consumer if the jobs are cut, maintenance will be reduced. Separation is bound to increase the need to introduce more regulation and this will in turn require further policing. As a result this there will be higher on costs.

This money can only be recouped by increasing transmission charges to suppliers and in turn this would be passed on to the consumers. Or alternatively it will be recouped by making saving elsewhere and we believe that these saving will come from job cuts and reduced margins of safety.

This may not manifest itself as a decrease in the day to day safety of the network, but is more likely to result in the inability to restore the network to full operation in a satisfactory time scale. Resulting in consumers losing heating, hot water, cooking for a sustained period of time as we have seen from recent examples quoted above.

- Transco must retain its own skilled and qualified workforce.
- The safety case must ensure there is an adequate workforce available to deal with emergencies and incidents.
- The safety Case must include a cooperation and transfer of labour agreement for emergencies.
- Under all circumstances Transco must remain the distribution operator of last resort.

The GMB believes that at the very least, Ofgem should assure itself before any further moves to allow Transco to sell the local networks that :

- a) It is independently demonstrated and verified by the HSE that separating the network does not itself increase any safety risk.
- b) It is independently demonstrated and verified by the HSE that the separate operation of any network will not increase any safety risks

- c) That any potential increase to any safety risk is identified and actual guarantees put in place. Not just safety case promises to minimise risks. **These guarantees must be verified by the HSE.**

Staff and Resources

As we have already stated we may well see new and incoming operators of local distribution networks employing insufficient labour to cope with sudden emergencies, thus requiring the use of skilled labour from Transco, other district network operators or contractors. We know from past experience of both electricity and gas that this is no longer a simple task in that these skilled staff may be required to complete their own work for their own employers, before becoming coming available to transfer to another local district network operator. Where as the under the present system all the employees are either employed directly by Transco or are on working on contracts for Transco, so that they can be co-ordinated quickly from one source.

We are also concerned that new district network operators may not only have insufficient skilled staff resources on their payroll, but they may not have adequate facilities and back up capabilities needed to undertake the employment of these large numbers of staff.

Similar problems have occurred during the tendering of London bus services and in Railtrack. In both these companies sub contractors have been unable to deliver services to the level required under their contracts. This has been for a number of reasons but frequently this has been insufficient skilled staff and back up resources such as control supervision. This has resulted in a number of operators losing contracts and going into receivership or being subject to take-overs by larger operators.

We note that at under the present proposal that Transco intend to continue to operate the remaining local district networks. We believe that this is essential in that Transco must be able to retain the skills and knowledge required to operate the system so it can become the operators of last resort in the case of a failure of a local district operator. It is also essential that Transco retains this knowledge within its own organisation. So that it can be sure that the costs of operators are kept in check, we have seen the results in Railtrack, London Buses and similar industries that have outsourced all their operations. That they are no longer in a position to check costs or offer comparatives to ensure these costs are reasonable.

London Buses resolved this by taking over one of the failed operators from the receiver and forming it into a wholly owned subsidiary and becoming the operator of last resort. Network Rail who took over from Railtrack has taken back in house a large proportion of its design and maintenance work. These were expensive mistakes not only for the companies but also for the public at large who had to suffer poor services. Transco must no be allowed to fall in to the position where they are unable to control operational or maintenance costs across the network.

Therefore to continue to operate the network safely and to ensure there both adequate skilled staff and back resources are available now and in the future.

The GMB believes that to maintain a viable skilled workforce that :

- All operational employees should remain direct employees of Transco
- Transco must retain design and maintenance staff to enable them to keep control of costs of the network.
- Transco must always be in a position to be the operator of last resort.

Emergencies

As gas does not fail safe. It is important that the public have a single control centre to report gas escapes and emergencies, with the now established single contact phone number of 0800 111999. This is essential to enable the public to obtain a clear and quick industry respond to emergencies in the fastest, possible time within targets set by the HSE.

In the case of supply failure, this requires skilled and trained workforce of adequate size to deal with emergencies and incidents. The gas industry has on a number of occasions failed to restore the supply quickly enough after failure leaving consumers without heating, hot water and cooking. This has included Finchley and, Luton. This has been due to a number of factors but these have included insufficient skilled staff to undertake the task. This along with the inability to decide whose problem these failures are and who pays the cost of restoration, caused unnecessary delays in restoring supplies for consumers.

We are also concerned that the proposed individual local distribution networks will not have a sufficiently large workforce to deal a serious incident or emergency and as a result they would need to obtain additional labour from Transco, other Individual distribution network operators and contractors. The response time is likely to be longer than that if the workforce all remained under the control of Transco.

It is our belief that the only way to maintain these safety standards and ensure that supplies are restored in a satisfactory timescale is for the operational workforce to remain employed under the control of Transco.

The GMB believes to maintain the existing standard of safety in the industry that :

- There must be one emergency service provider for the whole country.
- There should continue to be one public emergency number 0800 111999
- Safety and emergencies including loss of supply must remain part of Transco as single operation.
- The operational and emergency workforce must remain part of Transco
- Transco must always be in a position to be the operator of last resort.

Skill shortages

The previous break up, sale and deregulation of the gas industry during the 1990s resulted in the large shortage of skilled employees as no part of the newly separated gas industry saw that it was its role to train and recruit skilled employees for the future. This situation is now after some eight years being resolved by the efforts of the Gas and Water Industry Training Organisation (GWINTO) who have had to put huge resources into the industry re-establish to quality training standards and qualifications across the industry.

Staff skills and conditions of employment; we are concerned that from past experience that new entrants to the gas sector have not only tried to reduce number of skilled employees on their payroll but have also tried to reduce the skills of the employees not understanding the requirements of skills required to handle gas safely. This has resulted in further staff leaving and reinforcing the skill shortage in the industry. This in turn leads to companies poaching each other staff to enable the workload to be undertaken. We do not want to be in a position where history repeats its self.

Pensions

The GMB is aware of the Ofgem view on pensions and the GMB responded to this issue recently. However, we would reiterate that pensions are part of the employment contract and companies should not be put under pressure to reduce pensions to its employees past, present and future by decisions of third parties such as the regulator. At present staff employed by Transco are members of the Lattice Group Pension Scheme, in addition existing and deferred pensions who worked for Transco or the remnants of British Gas plc are also members of the Lattice Group Pension Scheme.

We are concerned that any new local network operator would not have the ability to provide a mirror image scheme to this standard mainly due to the small numbers of employees and lack of economies of scale this would bring. It is also our view that if employees transferred out of the Lattice Group Pension Scheme to mirror image schemes, this would have the effect of reducing the number active members of the Lattice Group scheme and in turn affect the viability of this scheme to pensioners, existing and future employees of Transco.

It is our belief that the existing Lattice Group Pension Scheme benefits by its size and that it has sufficient new and young employees contributing to the scheme to ensure that it remains viable. It is our view that all existing and future operational staff working for Transco on the existing local district networks must continue to remain in employment with Transco. Any non operational employees that transfer to a new local district operator must remain part of the existing Lattice Group Pension Scheme equally any new employees should also be allowed to join the Lattice Group Pension Scheme and the new employer contribute to that scheme at an agreed rate. This happens in other sectors such as electricity and Transport.

The GMB believes that in the interest of fairness that :

- Operational employees should remain employees of Transco and remain members of the Lattice Group Pension Scheme.
- Non operational employees that transfer to a Local Distribution Network Operator must remain part of the Lattice Group Pension Scheme.
- New and future employees working for the Local Distribution Network Operator must have the opportunity to join the Lattice Group Pension Scheme.

Separation of Transco RDN Business

We are of the view that there should only be internal separation of the RDN business within Transco to enable the workforce to be coordinated speedily to respond to emergencies and losses of supply where ever it happens. Total separation could result in slower response to a major emergency specially if was in an outsourced Local district Operator would had sufficient staff to deal with the restoration of supplies.

Separate Licensing Arrangements

We believe that the existing licence arrangement should continue for Transco which would cover both the National and local distribution network as separate parts of the same licence. However, there must a separate licence for each individual the Local Distribution Network Operator.

Network Code

We believe that it is important to keep the existing holistic network code the national and district networks are interlinked and a problem on any part of the network can affect the rest of the network both locally and nationally.

UNC arrangements should apply to Transco and all local distribution network operators.

Balancing

Each of the local district networks have different characteristics and are linked to the national network so can not be treated separately. Therefore responsibility for balancing the network must remain with Transco.

Interruptions and cutting off of supply at times of reduced capacity or excessive demand must be to a common code and properly agreed between Transco and any local district operator, the supplier and end user. This is to ensure that no particular consumer or Local distribution network operator is penalised.

There must also be an agreed code on investment in both the national and local network to ensure new consumers can be connected to the gas supply without fear of loss of

supply. This is particularly important with the Governments intended new housing programme, it is essential that the network can cope with the increased demand that programme would be placed upon it.

We do not believe that shrinkage should not be unbundled at this stage. However, we believe incentives need be placed on Transco on quality and pressure to ensure that the system delivers gas at the right quality and pressure to all consumers.

Metering

It is our view that at this stage metering should remain with Transco centrally and not be devolved to the individual local distribution networks.

Mains replacement

We believe that the existing arrangements under the 5 year cap on replacement activity should remain. However, after the 5 years then each of the individual local distribution networks will have to have their own programmes and these should not become interchangeable across the whole network.

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24 September 2003