



## **GMB RESPONSE TO OFGEM CONSULTATIVE DOCUMENT GAS DISTRIBUTION PRICE CONTROL REVIEW DECEMBER 2005**

The GMB is Britain's fourth largest trade union and represents workers in the all parts of the gas industry including those employed by National Grid (Transco) and the new local Gas Distribution Network companies. Whilst the majority of our other 600,000 members are gas consumers.

### **Summary**

Ofgem states that its "principle objective is to protect the interest of gas and electricity consumers where appropriate by promoting effective competition." It is the GMB's view that this objective can not be seen in isolation and must be viewed along side ensuring that the distribution companies provide a safe, secure gas and electricity supply at an affordable price to all consumers.

Ofgem must also ensure that the distribution companies have an adequately trained and skilled workforce in sufficient number to ensure this is the case. Enforcement of this should be both through the licence and price review structure in conjunction with other organisation such as the Health and Safety Executive (HSE).

### **Extension of the Present Pricing Regime. .**

The GMB supports the one year extension for the existing price regime from 2007 to 2008 and resetting the price control from April 2008, as being the best way of dealing with the transition from one distribution company to multiple distribution companies.

### **Separation of National and Local Distribution Networks**

The GMB understands that the separation of the national distribution network and the sale of four of the local distribution networks provide Ofgem with the opportunity to compare network costs.

However, we believe that direct comparisons on cost of operating the network can not be made on cost alone. Other factors such as size, geography, type of consumer age and size pipelines and plant must also be taken into consideration when making comparisons.

## **Safety**

The GMB is very concerned that as the existing gas industry has a very good safety record. For this reason people become lulled into a false sense of security and forget how dangerous gas can be both from the point of view of escapes and explosions, but also from carbon monoxide poisoning.

To date National Grid (Transco) has maintained that safety tradition by employing highly qualified and highly skilled personnel able to attend emergencies at a moments notice complying with the agreed Ofgem and HSE standards of customer of service.

We note that Ofgem recognises that leaking pipes are a risk and can cause injury, death and damage to property. However, there are other dangers associated with maintaining and operating a gas distribution system these include the risk of carbon monoxide poison to consumers and the public, the risk of asphyxiation to employees and contractors working on the system. As most of the distribution is along the public highway and requires work in trenches there is also the risk to workers vehicles and pedestrians associated with these works and public highway.

To ensure that these risks are taken into consideration National Grid and the four new entrant's employees are highly skilled, trained, and qualified to deal with all aspects of routine and emergency work. There must be an incentive to the companies that this is maintained.

It is also important that all contractors used in the industry are trained and adequately skilled to undertake work on the network safely. To this end the companies must also have an adequate quality control and monitoring regime with sufficient skilled staff to undertake this task.

## **Social Environmental and Sustainable Development Issues**

It is important that the role the local distribution networks have in the areas of social, environmental and sustainable development issues are recognised. With increase in problems of Global Warming and climate change there is strong pressure from the government on the industry to conserve energy and other reduce emissions of Carbon Dioxide and Methane.

On fuel poverty extending the network to non-gas areas would assist a large number of people to obtain access to the gas network and reduce reliance on other more expensive fuels. . However, the increase in cost of fuel including gas will move more in people into fuel poverty and the needs be addressed by Government and Ofgem. Past reviews have left a large number of energy consumers including more and more pensioners feeling disenfranchised with the process as the expansion of the Network and hence fuel choice has been very limited. It is hoped that this time Ofgem would include measures which would facilitate Network extension and choice

It will require the extension of the gas system into more non-gas areas, the provision of more energy saving measures such as better controls and improved property insulation.

As stated before one of the safety problems associated with gas supply and usage is carbon monoxide poisoning, in the last week of January 2006 there were two major incidents resulting six deaths and one serious injury. In order that possible incidents can be investigated provision must be made for the provision of specialist detection equipment.

We see these issues being covered by the general duties covered in the Authorities Statutory principle objective and General Duties as set on page 14.

### **Consumer requirements**

As the majority of our members are consumers of gas we believe that the main requirement of consumers is **“a safe, secure supply at an affordable price”**.

The second requirement is when there is an interruption or problem with the supply it is restored as soon as possible with the minimum amount of disruption. To this end a review of certification regime to enable Networks to respond more efficiently may be appropriate.

There third requirement is that the employees are trained and adequately skilled to undertake work on what is a dangerous commodity without risk to them or their families.

The GMB believes that the high levels of customer satisfaction and low level of problems on the gas distribution network is due to the high level of skills and dedication of the workforce.

### **Loss of Supply**

As Ofgem states the average consumer has their gas supply interrupted once in 40 years. However, when this happens the supply is interrupted for far longer than an equivalent fault with the electricity supply.

This is because unlike electricity gas does not fail safe and all properties that are affected by the supply failure have to be visited twice; firstly to turn off the supply and secondly to restore the supply safely after the repair has been effected.

This requires the distribution company to ensure that they have both a contingency plan to cover such incidents and sufficient trained and skilled to undertake the work within a satisfactory timescale.

There also needs to be recognition that now the local networks are separately owned and managed. The agreement covering large incidents where skilled employees need to be temporarily transferred between companies in order to be able to respond to emergencies within a satisfactory timescale needs to be retained.

### **Shared assets**

Where assets are shared between National Grid and the local distribution companies. Cost should be allocated across the business in a way that is not detrimental to the business or the operation of the shared asset.

### **Outputs**

The GMB agrees that outputs inclusion of price to the consumer, network capacity and quality of service are measures of output, but would add safety and security of supply as two key measures of output that should be included.

### **Incentives**

The GMB agrees that Ofgem must provide incentives that require distribution companies to operate efficiently and safely. We also support the inclusion in the incentives the additional issues of environmental concerns and sustainable development.

### **Operating and capital expenditure**

This must reflect the different needs of each of the networks, reflecting the size, geography, type of consumer age and size pipelines and plant must also be taken into consideration when making comparisons.

Consideration of adding service replacement cost to capital expenditure must be part of the review.

### **Shrinkage**

The GMB believes that shrinkage through gas escaping from the transmission and distribution needs to continued to be addressed. Escaping gas is not only a loss of revenue it is a danger to the consumer and public at large and is a release of methane (a greenhouse gas) into the atmosphere affecting global warming.

## **Pensions**

The GMB regards pensions as part of the whole pay package to employees and therefore should not be seen in isolation. Pension schemes and the levels of benefit provided by them are part of existing agreements between the companies and employees and part of their total pay and conditions. Therefore pensions provision must continue to be honoured in full.

The division of pension liabilities between the companies are reasonable and supported by the GMB. The new companies undertaking the pension provision of active members while National Grid remains responsible for its own active members, deferred members and existing pensioners is a sensible one. However, National Grid must not be put in a position by the regulatory regime where it cannot honour these commitments.

## **Other issues :**

### **National Security**

As can be seen from recent problems of global terrorism supply and transmission networks can be seen as targets and be the subject to terrorist attack. This is a frequent occurrence in the Middle East, Africa and the former USSR.

It is important that provision is made to allow National Grid and the distribution companies to take steps to improve security of the network and their staff operating on the network.

There must also be an adequate contingency plan in each company and between companies to ensure protection of supply to consumers if the unthinkable should happen and this must be part of the review.

### **Loss of Supply on Inter-connector**

Now that the UK is a net importer of gas, security of supply is now dependent on storage and imported gas. This imported gas could be subject to an interruption of supply due to a supplier such as Russia turning off or diverting the gas supply, as they have done twice in the last month. Thus creating a gas shortage across Europe which if sustained for a period of time may well be equalled out across all European countries affecting the volume of gas through the inter-connector.

The review needs to take into consideration the need for an adequate contingency plan in each company and between companies to ensure protection of supply to consumers should this happen.

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