

TN 97.
RECEIVED
30 JAN 2006



27th January 2006

David Gray
Managing Director, Networks
Ofgem
9 Millbank
London
SW1P 3GE

Dear *David,*

Gas Distribution Price Control Review

Thank you for allowing the Institution of Gas Engineers and Managers (IGEM) the opportunity to comment on the gas distribution price control review initial consultation and the transmission price control review second consultation.

IGEM is the independent professional body for the gas industry. It has operated since 1863 and has a Royal Charter to ensure that gas industry knowledge is shared and that professional standards are maintained and improved.

Within the context of the overall review, IGEM's remit is limited to a number of key areas. At the present time, it is felt that these areas do not appear to be adequately considered in the reviews. IGEM would be pleased to engage in providing ongoing information and independent advice to create the greatest opportunity for you to make considered decisions. The comments below are therefore an introduction to some key areas that we believe require serious consideration.

The reviews ask for forecasts well beyond the control period. IGEM supports the approach of considering impacts for at least five years beyond the next review to ensure the gas industry has the capacity and foresight **now** to mitigate future risks.

Age Profile and Competence

Various studies in the past have considered age profile in the gas industry. The IGEM membership database shows that the majority of registered professional engineers are over 50 years old. It is to be expected that by 2018 most of these will have retired. Indeed, key competence and skills are dramatically declining, year on year.

Age profile has been recognised as a serious safety and economical issue for many years and, although some positive initiatives have been instigated, the industry does require an overall strategic review to address the problem. This needs to consider building financial incentives into the formula to ensure that companies with licence condition obligations ensure that adequate investment is made to maintain competence and adequate future resource in future years. Unfortunately, the principal of allowing the market dynamics to naturally solve this problem is not working.



IGEM suggests that the companies involved in the reviews be initially asked how they intend to backfill the numbers and competence of the professional engineers who will retire or leave the industry in the medium and long term. What investment is to be made into competency and skills infrastructure is also a key area. The time required, to become professionally qualified and registered, is such that this issue needs to be addressed in the immediate future. This would expose the widening gap that continues to worsen year on year.

Ensuring that companies have adequately qualified and certificated managers would not only aid safety, it should have a noticeable effect on efficiency due to the ability for them to implement best working practice and innovative solutions. If you wish, IGEM can co-operate in working with organisations such as EU Skills to design the frameworks for training, assessment and certification of gas operatives and managers. Further market research may assist in quantifying the size of the current problem.

Training

It is anticipated that, as workload volumes continue to grow and senior professional engineers and managers retire, there will be an increasing requirement for training. This is over and above the training required to support the continuous professional development of the existing professionals. IGEM would be happy to support enquiries into efficient methods of ensuring competence and certification.

IGEM would ask that the companies involved in the reviews are asked to provide comprehensive training and development plans to ensure that their corporate competence is at least maintained and preferably shows a year on year improvement.

Professional Fees

IGEM members are accountable for paying their own professional fees. Some companies have a policy of reimbursing professional fees for their registered professional engineers and managers. IGEM fully supports this policy as we believe that professional accreditation of its employees supports the companies' licence to operate.

IGEM would ask that the companies involved in the reviews are asked to identify their current and forecast levels of professional fees and, subject to review, these fees are accepted as an allowed business cost which underpins their licence to operate. IGEM can then liaise with Ofgem to ensure compliance.

Technical Standards

Many of the technical standards used within the gas industry are published and maintained by IGEM. The corporate governance of these standards relies heavily on experts volunteering their time and knowledge. For many years the bulk of these experts have been supported by their companies.

IGEM would recommend that the companies involved in the reviews are asked to quantify their ongoing commitment to support industry standards on a voluntary basis and to explicitly identify the quantum of this support.

IGEM are in a position to act as an independent holder of industry standards and work with industry to update and maintain them under a fee structure with the Network businesses.

I hope that the above comments are helpful. If you would like to meet to discuss any of these further, I would be happy to travel to London at your convenience. Indeed, IGEM has access to gas industry experts who can provide advice who are independent and not associated with the companies involved in the review.

Yours sincerely

A handwritten signature in black ink, appearing to read 'JN Williams', with a long horizontal flourish extending to the right.

John N. Williams
Chief Executive Officer

Copies to

Joanna Whittington, Director, Gas Distribution, Ofgem
Robert Hull, Director, Transmission, Ofgem