

20th April 2006

~~Mr David Gray~~ *Bob.*
Managing Director, Networks
Ofgem
9 Millbank
London
SW1P 3GE

Dear David,

Gas Transmission Price Control Review

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

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. It is in a position to offer advice to you solely in the interests of maintaining and improving safety, quality and integrity in the gas industry.

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 some of 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 IGEM believes 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.

1 in 20 Security of Supply Criteria

The consultation document suggests that Ofgem may remove the 1 in 20 security of supply criteria for the NTS, allowing the NTS to react to market signals provided by the distribution networks and directly connected customers.

IGEM is strongly opposed to the removal of the 1 in 20 security of supply criteria as an independent check on the robustness of the capacity requests made to the NTS. The risks to gas supply are more apparent now than for many decades and it would be prudent to strengthen rather than weaken the governance in this area.

Around ten years ago, the 1 in 50 security of supply criteria for all firm connected loads was removed so that the market could decide the appropriate level of supply security for industrial customers. Ten years later, the UK is vulnerable to major supply shortages in the event of sustained colder than normal weather in winter.

This demonstrates the unintended consequences which can occur when the market replaces absolute security of supply criteria.

Institution of Gas Engineers & Managers

Charnwood Wing, Holywell Park, Ashby Road, Loughborough, Leicestershire, LE11 3GH

Tel: +44 (0)1509 282728 Email: general@igem.org.uk
Fax: +44 (0)1509 283110 www.igem.org.uk



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Number 214011

As a consequence, IGEM recommends that a far reaching risk and consequence analysis is undertaken prior to any further changes to the security of supply criteria. Indeed, IGEM recommends that Ofgem reconsiders the security of supply criteria in the gas suppliers licences' with a view to reinstating the obligation to have gas available for all firm connected loads.

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. By 2017 it is to be expected that most of these will have retired. Indeed, key competence and skills are dramatically declining, year on year. Competent engineers are a pre-requisite for safe operations and the gas industry is an industry where safe operation must always remain the first priority.

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 engineers and 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.

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 recommends 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 their employees supports the companies' licence to operate.

IGEM recommends 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 recommends 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 and who are independent and not associated with the companies involved in the review.

Yours sincerely



John N. Williams
Chief Executive Officer

Copies to

Robert Hull, Director, Transmission, Ofgem
Joanna Whittington, Director, Gas Distribution, Ofgem
Steve Wing, Head of Gas and Pipelines Unit, HSE