



GMB response to Ofgas Consultative document Gas Distribution Price Control Review Fourth Consultation March 2007

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

General

In the GMB's response we have decided to concentrate mainly on the employment related issues set out in Chapter 3. We accept that it is right for Ofgem to benchmark each of the companies to ensure that no one company's performance is way out of line with the new norm or the average of the companies.

However, as a general point we are concerned that it is still only 18 months after separation. While changes in work methods are still taking place it is too early to benchmark each of the companies and form a true picture of what the new norm is across the industry.

Each of the companies are now regionally based which in itself creates a new set of values and costs that can no longer be dissipated or aggregated across the whole country. Therefore we are of the view that Regional variations are now more important than they were in the past.

We are also of the view 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 in each individual company must also be taken into consideration when making comparisons.

Safety

To date National Grid and the local Gas Distribution Networks (GDN) owned by Wales and the West, Scotia Gas and United Utilities have maintained safety in line with the tradition of that attained by Transco. This has been achieved by employing highly qualified and highly skilled personnel able to deal with the range of skills and tasks required in the GDNs for both general work and emergencies.

Dangers

We note that Ofgem recognises that gas does not fail safe and 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 poisoning to consumers and the public, the risk of asphyxiation to employees and contractors working on the system. As most of the distribution network is along the public highway and requires work in trenches, there is also the risk to workers vehicles and pedestrians associated with these works on the public highway.

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 not only from the point of view of escapes and explosions, but also from carbon monoxide poisoning.

At this time the HSE is undertaking a fundamental review of the Gas safety and has just published its report by Frontline consultants and this is being consulted on publicly at the present time. The outcome of this consultation may require changes to the way the GDNs work. Provision must be made in the Price Control Review for the GDNs to recover any additional cost that result from this review or subsequent changes to their responsibilities or workload.

Skilled workforce

The local GDNs will now be in competition for labour with each other, the utility contractors and large construction projects such as the Olympics. We are concerned that there may not be a sufficient allowance in the Price Control Review to allow the GDNs to attract new skilled labour and to train people up to the correct skill level in order to maintain a safe network.

It is essential that to avoid any risks to the network that a shortage of skilled labour in the industry would cause. These concerns must be taken on board to enable the GDNs to attract and employ adequate numbers of highly skilled, trained, and qualified employees to deal with all aspects of routine and emergency work. There must be adequate incentives to enable the companies to recruit and maintain a skilled and trained workforce as a directly employed workforce.

The Price Review must provide sufficient funding and this must be made available during the review period to enable the GDNs to recruit and train apprentices, adult apprentices graduates and other adult recruits. There must also be sufficient funds to maintain and up skill the existing workforce. The GMB strongly supports the work that is being undertaken by E & U Skills to look at a coordinated approach to training and recruitment across all the gas networks. To ensure there an adequate and sufficiently skilled workforce to meet the needs of safety and security of the networks during this and the next review period.

Loss of supply within GDN the local distribution networks.

We are concerned that now the GDNs operate as separate networks that each GDN will not have sufficient skilled and qualified staff resources to restore the network to local consumers in a satisfactory timescale. This would become even more of a problem if there was undue pressure to reduce labour costs and increase the use of less skilled contract labour rather than maintain a directly employed skilled workforce.

We would remind you that unlike electricity gas does not fail safe, a failure in the local gas network requires the visit to each consumers' property twice. Once to ensure the gas supply is turned off and made safe and a second time after the supply is restored to ensure that gas appliances in the property are left in a safe manor.

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. A serious problem with the storage system as that happened with the Rough storage field or the 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 before. Creating a gas shortage across the UK and/or Europe which if sustained for a period of time may well be equalled out across all European countries affecting the volume of gas available in the UK or through the inter-connector to the UK.

The price review needs to take into consideration the need for adequate contingency plans in each company that incorporates the cooperation between companies to ensure protection of supply to consumers in the event of such a national shortage.

Pensions

The GMB strongly believes that the pension provision in the gas distribution sector is not out of line with that in rest of the utility sector. That pensions are part of the total reward package and a way of attracting and retaining people with the right skills needed to run a safe and secure gas distribution network, taking into consideration that handled wrongly gas is volatile and dangerous commodity.

It is our view that the companies that purchased the local networks from National Grid were well aware of the existing pension liability as was Ofgem when the authority was given for the sale of the local network. There has been no substantial change since the last review. The issues that Ofgem are raising are causing some considerable concern both with the employers and with our members in the sector.

The GMB notes that the local networks were sold only 12-18 months ago. Given the average valuation cycle is every 3 years; it is too soon to anticipate the true funding position of the pension schemes. This is further supported by the discussion of how to treat any potential surplus. As the schemes are currently in deficit and have substantial

recovery plans to address the deficits, it is premature to be consulting on how to address any such surplus that may not occur for a considerable period.

In addition, the valuation results for each scheme are different for a key reason. The valuations were carried out on different dates. This will have a direct impact on the results of any valuation. Actuaries take into consideration the current financial markets and where the assets are invested at the time of reviewing the future contribution rate required and funding ratio. Therefore, even if the liabilities and assets of each of the schemes are the same there is the potential for different outcomes if the valuations are carried out at different times. We suggest Ofgem contact the scheme actuaries for further details.

The GMB does not support any of the 3 proposals suggested in the consultation document and therefore we will not be commenting on them. We have grave concerns regarding any changes to the way the pension schemes are funded. We see the proposals as a direct attack on the future viability and security of our members' pension benefits.

We therefore call on Ofgem to enter into a dialogue regarding the funding of the pension schemes with an aim of maintaining the current policy. We do not see the close of consultation on 26th April 2007 to be the end of this matter will be seeking a separate urgent meeting on these issues.

Social Environmental and Sustainable Development Issues

It is important that Price Review recognises the role that GDNs have in the areas of social, environmental and sustainable development. The increase in problems of global warming and climate change will place strong pressure on the companies from the government and other agencies to conserve energy and reduce greenhouse gas emissions of carbon dioxide and methane.

Distribution Price Review and Wholesale Energy Prices

As the Gas Price Review comes at a time of uncertainty with the wholesale price of energy, it is important that Ofgem is able to assure the public and consumers that the distribution price review and any subsequent increase in gas price are clearly separated from those price increases that have risen due to the shortage of gas and the rise in price in the wholesale gas market.

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