



GMB response to Ofgem Consultative document Gas Distribution Price Control Review Fourth Consultation May 2007

GMB is Britain's third largest trade union and represents workers in the 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 the following chapters 3, 5, 6 & 7.

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 less than two years 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 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.

CHAPTER: Three

Question 1: Do you agree with our approach for setting opex allowances and the proposed allowances we have derived using that approach?

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

It is the view of the GMB that insufficient allowances have been made in regard to the need for

- A highly skilled and trained workforce.
- The ability to ensure that the GDNs are able to meet their emergency targets of attending emergencies within 1hr and 2hrs.
- The loss of metering work.
- The need to recruit and replace an ageing workforce and the assumption that pay of new employees undertaking the same work will be less.
- The need to attend to issues of Carbon Monoxide as a result of more public awareness of the problem.

A highly skilled and trained 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 are not sufficient allowances 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. Failure to action in this price review will affect the next price review when the need for highly skilled labour will become even more critical. Therefore it is essential that to avoid any risks to the network that a shortage of skilled labour in the industry would cause are addressed in this price review and not left to the next price review

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 and the increased need to deal with issues of carbon monoxide. 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 this 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.

The ability to ensure that the GDNs are able to meet their emergency targets of attending emergencies within 1hr and 2hrs.

The ability of GDNs to meet the agreed targets for attending to emergencies within 1hr and 2hrs are becoming more difficult and require additional resources especially out of normal working hours. This due to a number of reasons; including the long traveling

distances involved in some of the rural areas while the increase in congestion and traffic management schemes in towns and cities also increase travel time.

The loss of metering work.

This reduces the volume of balancing work that can be rearranged when there is sudden high volume of emergencies. The loss of this work may mean that the workforce spends less time on other productive work.

The need to recruit and replace an ageing workforce and the assumption that pay of new employees undertaking the same work will be less.

The GMB is very surprised at the dismissive attitude of Ofgem to the GDNs case for the need to recruit and replace their ageing workforce. When ample evidence of this has been provided by both the GDNs and Energy and Utility Skills.

The case is dismissed with the following comment in para 3.50 “ We do not believe that any additional allowance is necessary as new recruits have the potential to be more efficient and will generally be at the lower end of the pay scale”.

It is our view that there is no difference in the pay of new recruits once they have been trained to the required standard. As to the claim that they will be more productive this could only be the case with the introduction of more modern technology or different ways of undertaking the work and this applies equally to existing workforce.

The need to attend to issues of Carbon Monoxide (CO) as a result of more public awareness of the problem.

Making the public more aware of the problems and issues of Carbon monoxide will also lead to an increase in the number of calls received by the GDN Emergency service this in turn will lead to a training need and the possibility of more staff. See question 3

Question 2: Do you agree with the proposals to uplift allowances derived from disaggregated benchmarking so that they are consistent with the power of a top down approach?

Pensions

GMB believes that pension provision in the gas sector is a key factor in recruiting and retaining the specialist skills needed to run a secure gas distribution network. In addition, GMB considers that the pension schemes provided in the gas sector are in line with the rest of the utility sector.

GMB was opposed to the three options Ofgem proposed in the March 2007 consultation document and we highlighted our opposition in our response. We are concerned that the

three options proposed in the March document will reduce member security and the future viability of our members' pension benefits.

We therefore welcome Ofgem's response that two of the options have now been rejected. However, GMB remains very concerned that one proposed option is supported by Ofgem and a technical group may be established to pursue implementation.

GMB remains firmly opposed to any suggestion that a surplus can be used for any purpose without trustee consent. There are a number ways of interpreting the information provided in paragraph 3.91. The paragraph makes reference to using the surplus for the benefit of consumers regardless of trustee consent. This could mean that a surplus is taken into consideration at future actuarial valuations and price control reviews to reduce employer contributions, or it could potentially mean that the surplus is removed from the scheme and a payment made direct to an employer.

GMB notes that Ofgem is planning on taking this issue forward in a separate technical working group. However, we question whether this is appropriate as GMB maintains that the trustees own the surplus and should use the surplus in the best interests of the pension scheme and beneficiaries. This is fully in line with their fiduciary duties to the scheme members.

There has been a legal debate over the ownership of pension scheme surpluses which continues. GMB maintains, in line with our current policy, that a pension scheme surplus is owned by the trustees.

If Ofgem's proposal is that the surplus is taken into account at an actuarial valuation or price control review, GMB believes trustees have a crucial role to play should any employer contribution reduction occur. GMB strongly opposes any move to remove the trustees from deciding how to use the surplus. In addition, should this be a route that Ofgem is considering GMB anticipates being fully involved in any discussions that looks to reduce employer contribution rates. We will be seeking to see that any reduction in the employer rate is accompanied by employee advantage either in terms of improvements or contribution reductions.

Current legislation allows the payment of a surplus to an employer providing a number of conditions are met. These include:

- That the payment does not contradict rules of the pension scheme; and
- That the trustees are satisfied that it is in the interests of the members for the payment to be made.

A payment to an employer from a surplus is therefore not impossible although may be difficult depending on the view of the trustees.

If Ofgem is proposing to remove the surplus from the pension schemes as a direct payment to employers without trustee consent, GMB is utterly opposed to the proposal. Not only do we believe that the Pensions Regulator is likely to take a poor view of

removing the surplus because of the subsequent impact on member security, but also stripping the trustees of their powers is wholly unacceptable.

In addition, we are surprised that Ofgem would consider removing the surplus from the pension scheme because of the potential impact this could have on the pension protection fund levy. The risk based levy will be reduced should a scheme hold a surplus. Therefore removing the surplus may have the unintended implication of increasing the levy that schemes pay.

GMB calls on Ofgem to enter into full discussions with GMB regarding future scheme surpluses prior to any technical group being established.

***Question 3:** Do you agree that GDNs Emergency Service personnel should be required to carry and use carbon monoxide measuring equipment during gas emergency investigations?*

Carbon Monoxide (CO)

The GMB welcomes this fresh approach by Ofgem that recognises the problems of Carbon Monoxide and the failure of the industry to deal with this is a serious issue since 1994 when it fell down the gap as British Gas was separated and deregulated. Today Carbon Monoxide is still not dealt with in satisfactory manor. Although the number of deaths and serious injury per year are small by comparison of the 18 million gas consumers in the UK it still remains an important issue.

If the industry took responsibility for the carbon monoxide and improved the managing of this problem this could clearly reduce these incidents to a much lower level. The study undertaken by UCL for the HSE in 2006 and confirmed by Corgi in 2007 has clearly shown that the incidence of CO in consumer's property is far greater than realised. This also has the potential to become a larger problem in the future.

The GMB have constantly argued that the industry should take a more responsible attitude to the problems surrounding CO and fumes from gas appliances rather than hope somebody else in the industry or the consumer will take responsibility for CO.

It is our view that dealing with and responding to emergency calls from consumers relating to carbon monoxide and associated issues should be the responsibility of the Emergency Service Provider. In this way the cost of dealing with the initial call can be refunded through the regulatory process. This would mean that the whole industry pays. However, there are number of issues that this raises that need further clarification.

The Existing Situation

The existing system where the Emergency Service Provider attends and makes safe is not satisfactory from the consumer's point of view and leaves them in a difficult position. It

can also cause problems for any following Corgi registered engineer who has to make a follow up call without the full information.

We believe that to just impose this duty on the Emergency Service Provider without careful thought to the process could result in a large increase in costs which are out of proportion to the problem.

The existing operatives who attend emergency calls are trained in dealing with gas safety issues covering escapes, loss of supply and other gas related emergencies. They are not trained to ACS standard to identify and rectify faults with appliances, but are able to recognise obvious dangerous situations and when in doubt to make the appliance safe.

Our estimation is that today less than 10% of emergency calls can be related to faulty appliances or possible evidence of CO from either an appliance in that or an adjacent dwelling. To expect all these operatives to be trained up and equipped with CO detection and measuring equipment and deal with calls relating to CO and other related issues would be costly, time consuming and may not resolve the problem.

A Second Tier Workforce

It is our view that The Emergency Service Provider should have a specially trained second tier workforce with the appropriate equipment to establish whether there is carbon monoxide is present in the dwelling, is being emitted from an appliance or not in the premises and or including from an adjacent property.

When an Emergency Service Provider is called to a suspected CO related incident or the first emergency operative arrives on site and they believe there is a CO, fumes or similar related issues. They should be able to call on this second tier trained workforce to attend the incident this facility should be available 24 hours a day.

Incidents of death or serious injury from suspected CO poisoning.

When the first call to an Emergency Service Provider is to a suspected report of a death or injury from CO poisoning the emergency operative should be accompanied by a senior official from the Emergency Service Provider who is capable of undertaking a full investigation of the incident.

The Emergency Service Provider should also be in a position to provide consumers with a list of Corgi registered companies who would be able to undertake an independent investigation on their behalf.

Full reimbursement to the GDNs for this service must be allowed for in the Regulatory Review. The GMB would welcome further discussion with the regulator and other interested parties on this subject.

CHAPTER: Five

Question 1: Do you support our proposals for changes to the outputs and quality of service arrangements?

The GMB supports the simplification and rationalisation of guaranteed standards of performance (GSOPs) and overall standards of performance (OSOPs) and improving their measurement.

The GMB also supports the moving of the requirement to attend to 97% of gas escapes within one hour and two hours to the output performance monitoring condition (in the Standard Special licence condition D9).

We support the changes to (GS) 1 Restoration of Supply to a lower limit of 30,000 customers, we also support the inclusion of smaller non domestic and commercial customers.

We support the inclusion of damage by third parties or water ingress (TPWI) in the schemes as a benefit for consumer and a discipline on GDN to rectify the loss of supply as a matter of urgencies.

The GMB also believes that it should also include loss of supply by another GDN and the compensation costs should be passed to the responsible GDN by the locally affected GDN.

Question 2: Do you support our proposals for improving the accuracy of pipeline records?

The GMB supports the proposal to improve the accuracy of pipeline records. This is in the interest of safety of employees of all utility companies and also aid efficiency in the time taken to locate pipelines in the future.

Question 3: Is Ofgem's proposed approach to setting allowances for the outputs and quality of service arrangements for 2008-13 appropriate?

Balanced Scorecard

The GMB would support moving to the use of balanced scorecard method of measurement and comparison of the GDNs. We also welcome the inclusion of environmental performance, but feel this needs further refining.

However, if this method is chosen it should also include employee issues as true record and comparison of GDN performance. Therefore the scorecard should include:

- Accidents to employees and contractors.
- Training for employees and contractors.
- Breaches of health and safety by GDN and contractors

Replacement of gas service risers in high rise buildings.

The GMB believes that the costs submitted by the GDNs for the replacement of gas risers in high rise buildings should be accepted. These are an area of potential danger for the future and should be address through a planned programme.

We understand the suggestion from Ofgem that it might be cheaper and easier to withdraw gas from some of these buildings and replace the gas appliances with electric appliances.

However, we would caution this approach on a number of grounds. The increase running cost electrical appliances especially heating as confirmed in appendix 14 may cause undue hardship to the poorer occupants of the these buildings.

Experience elsewhere has show that in these cases the occupants frequently replace the gas appliances with LPG or Paraffin cooking and heating appliances rather pay the cost running electric appliances. This leads to a far worse health and safety risk to both that occupant and to all the other occupants in the block.

Private networks

The GMB welcome the adoption of existing private networks by the GDNs. However, when this occurs special allowances over an agreed period of time must be granted to the GDN to allow them to bring both the network and the records up to the GDN's standard. We agree that this should be on a case by case basis.

CHAPTER: Six

Question 1: Are the proposals for the capex rolling incentive and IQI appropriate?

We have no view.

Question 2: Is it appropriate to implement an opex rolling incentive?

Skills and Training

The GMB is strongly of the view that there should be an adequate allowance in Opex to ensure that the workforce remains of adequate size and is adequately skilled. The GMB supports the work undertaken by E&U Skills on skill shortage and needs for cross industry recruitment and training to prevent even more expenditure in the next review period.

Carbon Monoxide

If the responsibility for carbon monoxide is passed to the Emergency Service Provision of the GDNs there should be adequate allowance under Opex to enable the GDNs to undertake this role.

Carbon Monoxide Awareness

The GMB see this as a separate issue to the responsibility to attending incidents of carbon monoxide under the emergency service provision of the GDNs.

We believe that the industry as a whole should contribute to carbon monoxide awareness. Improving the knowledge and understanding not only of consumers and landlords, but of the emergency and health services as well.

This should also include the provision of supplying and fitting and inspection of CO detectors in the properties of vulnerable consumers.

Research and Development

The GMB is strongly of the view that there should be an adequate allowance in Opex to ensure that research and development is maintained in the industry.

CHAPTER: Seven

Question 1: Do you agree with our assessment of the risks, costs and benefits attributable to the options for facilitating network extensions (Appendix 14)?

We have no view

Question 2: Do you agree with our initial proposal (i.e. Option 3 complemented by a discretionary reward scheme)?

As part of the Discretionary Reward scheme the GMB supports the inclusion of:

- Environmental impact of the gas distribution network including shrinkage
- The facilitating of network extensions
- Promoting of gas safety including CO awareness

Question 3: Do you consider our proposed method to implement Option 6 appropriate (i.e. through GDNs' connection charging statements)?

We have no view.

Question 4: Do you consider the Government's Index of Multiple Deprivations to be an appropriate index to identify which fuel poor non-gas communities qualify for special treatment for gas network extensions? If not, what do you recommend?

This is a sensible starting point. However, frequently local authority wards do not always easily define a community. Local authorities' wards can contain sub communities that would meet the criteria even though the ward might not meet the criteria as whole. Also ward boundaries often divide communities with the boundary down the centre of the road and in other cases communities often cross into more than one ward.

Therefore a more refined measure of a fuel poor community will often be needed.

***Question 5:** Do you support our proposals for the introduction of a Discretionary Reward Scheme for GDNs and its format given the larger reward?*

The GMB believes this reward scheme should apply to any or all GDNs

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