



## **GMB response to Ofgem Gas Distribution Price Control Review Updated Proposals Consultation Document 226/07 – published 24 September 2007**

### **Introduction**

1. GMB is Britain's third largest trade union and represents workers throughout all sectors of the gas industry, including those employed by National Grid and the other Gas Distribution Network companies. Additionally, regardless of who they are employed by, the majority of our 600,000 members and their families are gas consumers who have an interest in the outcome of the GDPCR because of its potential impact upon gas prices, the security of supply and safety.

2. GMB's response below is restricted to commenting upon issues arising from Chapter 3 of the Consultation Document, pp7-22. This sets out Ofgem's updated views on a range of policy issues associated with its analysis of the GDN's forecast operating expenditure along with its updated proposals for operating expenditure allowances. Our response, however, is not restricted to answering Questions 1 and 2 on p7, although the views we set out below do incorporate our disagreement with approach adopted by Ofgem to the issues covered in these 2 questions.

### **Methodology and general assumptions**

3. In our view, Ofgem's assumption or expectation that the GDNs can simply continue to reduce their operating costs and increase productivity is not credible. GMB questions the validity of many of the assumptions that have led Ofgem to reach its conclusions. Ofgem's calculations are predicated upon a range of assumptions about future productivity growth which are at best, over-optimistic, and which at worst have such a high margin of error that the potential consequences for the GDNs, their employees, and the consumer could be very serious.

4. We believe that it is incumbent upon Ofgem to both demonstrate to, and persuade, the stakeholders that in producing its updated proposals it has conducted a robust analysis which has taken all relevant factors into account. Unfortunately, this has not been the case. For example, the very wide range of factors that can influence or determine future improvements in productivity levels makes reaching reliable conclusions based upon cross-sectoral comparisons of trends in productivity very difficult. In particular, the choice of comparator sectors

is of crucial importance. For such a method to have validity, Ofgem must be able to demonstrate the reliability of its choice of sectors and provide evidential information which is relevant to the type of labour-intensive operations that the GDNs carry out. We do not consider that the cross-sectoral comparison that Ofgem conducted provides any substantial evidence of reliability, and therefore we remain wholly unconvinced of the strength of the conclusions that have been reached. Our view is that Ofgem has not given due consideration to the representations made by GDNs.

### **The consequences of the proposals on OPEX**

5. In addition to questioning the assumptions that underpin Ofgem's conclusions about the potential for achieving both efficiency savings and a reduction in GDN's operating expenditure, GMB does not consider that such a reduction can take place without consequences. Our view is that the Ofgem updated proposals have the potential to ultimately undermine standards of service, public safety, security of supply and consumer confidence in the industry. As a result, the jobs and livelihoods of our members could be put at serious risk.

6. GMB strongly disagrees with the approach Ofgem has adopted in formulating its revised proposals, particularly in responding to the representations made to its initial proposals. Indeed, GMB is dismayed at the tone of some of the comment found in the updated proposals document. Although it is stated that a number of changes have been made "to take account of responses to initial proposals", we consider that there are an excessive number of instances whereby Ofgem casually dismisses, in a fashion that almost borders upon arrogant, the concerns and representations made by the GDNs and others. Examples of this can be found throughout chapter 3, particularly in relation to additional regional costs, and also real price effects and productivity growth.

7. In repeatedly using phrases like "we have not changed our position" Ofgem demonstrates an absolute belief in the infallibility of the methodology, assumptions and calculations that it employs, that we consider to be against the long-term interests of the consumer, the GDNs and the people that they employ.

### **Training and Apprentices Costs**

8. A particularly damaging example of Ofgem's dismissive approach to the representations it receives can be found at paragraph 3.40. The report produced by EU Skills examining the longer-term impact of an increasingly ageing workforce was disregarded by Ofgem, dismissed as not being "a suitable basis" for setting allowances as it was considered to be "unduly pessimistic".

9. Ofgem, at a stroke, thereby brushed aside legitimate concerns over the potential consequences of the loss of skilled employees to the industry, whilst

simultaneously revealing what it appears to see as the long term future for labour provision in the industry with its reference to “the contractor side of the market”. It is clear that the pursuit of this hidden agenda, to lower operating costs by creating the conditions that will force the GDNs to utilise contracted labour at the expense of a directly-employed workforce, over-rides the concerns of important stakeholders, like the GMB, who see such a development as an attempt to undermine the terms and conditions and employment prospects of our members. We do not consider it to be part of Ofgem’s role to put jobs in the industry at risk.

**10.** GMB also believes that Ofgem’s approach to this issue is at odds with Government policy, which aspires towards UK employers playing a central role in creating and maintaining a highly skilled workforce. In setting the rates of additional allowances so that GDNs can maintain a suitable level of competently trained staff to carry out their activities, it is incumbent upon Ofgem to take into account all the factors that could impact upon the future ability of GDNs to achieve this important objective, including their need, as responsible employers, to respond to Government policy initiatives. GMB is of no doubt that the issue of what actions employers will be expected to take to drive up skills levels amongst their workforces is here to stay, and will remain high on the economic and political agenda. Adequate provision must be made to allow the GDNs to upskill and develop their workforces, and the allowances contained in the updated proposals are insufficient to ensure this.

## **Pensions**

**11.** GMB’s response to the Fourth Consultation Document, and our accompanying correspondence, outlined in detail our concerns about, and objections to, the Ofgem initial proposals on pensions. Some of these proposals could, we believe, put Ofgem onto a collision course with the Pensions Regulator. GMB therefore welcomes paragraph 3.83 and the decision to revisit the issue of pension fund surpluses in a separate workstream, and looks forward to this work commencing no later than April 2008.

## **Carbon Monoxide (CO) Monitoring**

**12.** In its initial proposals Ofgem revealed that it was considering whether there would be any safety benefits in requiring GDN emergency service personnel to carry and use CO measuring equipment. We note that Ofgem recognised, following responses received to initial proposals, that further assessment was needed on this issue before it can decide on the best way to proceed.

**13.** GMB considers that it was appropriate for this issue to be considered as part of the GDPCR. We welcome the initiative of holding an industry workshop, seeking to clarify and inform all parties of what is under consideration. It is

important to ensure that the potential costs and consequences are taken into account, as well as the benefits.

**14.** That workshop has now taken place, and in our view it was successful in clarifying to parties present what Ofgem's perspective is, and in engendering a more informed debate about the initial proposal, which GMB believes was misunderstood and misinterpreted, as reflected by the responses received to the previous Consultation Document.

**15.** It was also clear that all present shared a mutual concern and deep understanding of the importance of the issue of CO poisoning, and the potential role that ESPs could play in identifying and quantifying the presence of CO in premises visited by ESPs and/or the premises adjacent to them. However, we do not believe, unfortunately, that the workshop was wholly successful in achieving its stated objective: "to agree what options (if any) Ofgem should be considering to improve the ways in which carbon monoxide spillage is quantified when ESPs attend a gas emergency."

**16.** For this reason, we believe that Ofgem should view the workshop of 18<sup>th</sup> October as the first step, not the final one, in the important process of evaluating how to improve the way that ESPs deal with the issue of CO. This is a complex issue which requires careful consideration before proposals can be formulated which all the GDNs and other interested parties can "buy into". Our view is that, at present, there is not a strong enough consensus between those who attended the workshop for proposals to be formulated which would attract sufficient support for a conclusion to be reached with confidence.

**17.** GMB therefore urges Ofgem to ensure that premature decisions are not made in this matter and for this work to be taken forward as a separate workstream (in a similar manner to that proposed for the pensions issue). We would like to see a Working Group established, consisting of members with technical expertise working in conjunction with representatives of the ESPs (including FCOs with first-hand experience of attending emergency callouts) and other stakeholders, to study this matter in depth and bring forward practical proposals for further consultation. This would allow the full range of costs, benefits and consequences to be fully debated and considered. In our view, a Working Group, its terms of reference and a timeframe for completing its remit could be quickly established.

22<sup>nd</sup> October 2007