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Dear Mr McEachran

OFGEM'S INITIAL PROPOSALS RIIO-T1

Prospect is writing to you by way of response to the publication of Ofgem's Initial Proposals for National Grid Electricity Transmission plc and National Grid Gas plc RIIO-T1. As you are aware, within National Grid our members are responsible for operational and technical management and the provision of professional engineering and other technical services. Other members work in a range of sectors and functions where the regulation and operation of electricity and gas transmission Companies are of significant professional concern.

Prospect was consulted as a relevant stakeholder by National Grid as it developed its business plan for the RIIO – T1 period. Like other trade unions, we are concerned that Ofgem's Initial Proposals outline a settlement some 20 per cent lower than that sought by the Companies. We think it likely that the Initial Proposals will not incentivise the major investment that is required in the transmission and distribution infrastructure, affecting potential jobs growth within the sector, the Companies' capacity to meet environmental targets and reliability of the networks.

Prospect agrees with NGET's workforce planning estimates that the expansion and renewal of the transmission network will require the recruitment and training of significant numbers of specialist staff during the RIIO-T1 period (some 2,000 new employees by the end of the RIIO- T1 period). The age profile of engineers and specialists within the Company will result in a rise in future staff turnover as significant numbers are due to retire during the course of the business plan period. As DNOs and other competitors face similar challenges there is likely to be competition for scarce specialist skills. Evidence collected very recently by Prospect has identified problems in recruiting and retaining project managers and specialist engineers in a number of areas including transmission, asset management, C&I and control. In addition longer-term skill shortages and gaps are anticipated across a wide range of companies. Considerable investment will be required in apprentice and graduate

recruitment programmes. It is therefore critical that the price review settlement allows the Company to meet this recruitment and training challenge.

We note that in constructing the forecast of labour Real Price Effects Ofgem has drawn on evidence of both general wage growth in the private sector as well as in construction, transportation and engineering sectors. The forecasts for 2012/13 and 2013/14 are influenced by the forecast for the average earnings growth across the whole economy and by Ofgem's conclusions as to current subdued real wage settlements.

We would draw your attention to the specialist skills that will be in high demand in the price review period against a background of forecast retirements and other capital programmes in competitors that are likely to experience similar skills shortages. We do not consider that Ofgem's forecast for labour real wage growth of 1.4 per cent per annum reflects the fact that salary growth in the energy sector is likely to outstrip that of the wider private sector. This is borne out by recent pay outcomes for 2011/12 which demonstrate pay settlements have been consistently higher than the increase in average earnings in the private sector generally. Across Prospect's own footprint an average increase of 3.5% comfortably outstrips a wider private sector average of 2.71%. Independent pay commentator IDS reports that the median increase for the energy sector for 2012 to date is 3.1%.

Concerns about market pay persist and NGET currently pays a large number of market supplements on top of base pay for specialist skills. This is necessary in order to attract particular skills and will only become more acute in areas like construction, project engineering, critical network infrastructure etc. We also anticipate costs associated with competency based progression as staff attain new skills and progress through pay scales. We are concerned that Ofgem's allowances for Real Price Effects do not adequately reflect a realistic assessment of likely salary growth.

Our view is that the current Initial Proposals could result in the Companies curtailing their recruitment and training plans and that this will affect the Companies' capacity to deliver the outputs for the price review period.

Together with our trade union colleagues, we would welcome a further discussion with you to outline our concerns in advance of publication of your final proposals in December.

Yours sincerely



Emily Boase
National Secretary