

1. ELECTRICITY DISTRIBUTION PRICE CONTROL REVIEW

Prospect is a Trade Union formed in November 2001 by a merger of the Institution of Professionals, Managers and Specialists (IPMS) and the Engineers and Managers Association (EMA). We represent 105,000 scientific, technical, managerial and specialist staff in the Civil Service and related bodies and major companies. In the electricity supply industry, we represent Engineers and other professional specialist staff employed in generation, transmission and distribution. We were fortunate in being able to draw members' direct operational and technical knowledge and experience to inform our assessment.

2. QUALITY OF SERVICE OUTPUTS

Whilst we welcome the modest adjustments that had been made to the actual and target figures for customer interruptions (CIs) and customer minutes lost (CMLs), reservations remain in our mind that both the Operational Expenditure and Capital Expenditure allowances will be insufficient to meet the resource implications. The lack of guaranteed additional income to resource operational allowances and Ofgem's commitment to retain a 1½% productivity increase implies that minimal resources are available even to DNOs at the efficiency frontier. Although there is evidence to show that DNOs are working with Prospect and the other unions to optimise response times, we do not believe that simply restructuring an already efficient industry in this manner will obtain the reductions in CMLs that customers clearly wish to see.

You previously indicated to Prospect that you would welcome observations from us on the technical approach to a sustainable reduction in CMLs.. We are still considering our options and will respond to Ofgem once our investigation is complete.

3. EXCEPTIONAL EVENTS

Prospect welcomes Ofgem's intention to introduce severe weather restoration arrangements through a statutory instrument. In general terms, we believe the initial Ofgem proposals will need the test of practical experience before a reliable judgement can be made on the adequacies of the incentives and standards. Also as DNOs respond to these incentives and penalties, the system will need further refinement to ensure that the correct balance between retaining a sufficiently large workforce to respond promptly to severe weather events and ensuring that ordinary operations are appropriately resourced. Given that the training of both internal staff and contractors is largely driven by operational requirements and a long-scale capital plan, Ofgem needs to ensure that the overall regulatory regime encourages training to a level that provides sufficient staff to respond to severe weather. There is not a reserve pool of appropriately trained staff working in other sectors of the economy who can be readily used for emergency cover due to the sector specific skills required for fault restoration.

**4. COST ASSESSMENT
REGIONAL FACTORS**

In previous submissions we have urged Ofgem that recognition should be given to the higher pay rates which apply throughout the Greater London and wider South East area generally.

We note Ofgem's comments in relation to regional factors and welcome confirmation that the issue is still under consideration. We also welcome confirmation that wage cost factors for DNO's operating in the wider South East Area also remain under consideration. We do not believe that further consideration of these issues should be restricted to EDF-SPN. Rather, we believe that wider economic pressures within the South East as a whole justify consideration of all EDF companies as well as SSE-Southern receiving higher allowances that relate to the volume of work undertaken within areas with large wage costs.

5. VEGETATION, EXCEPTIONAL EVENTS AND QUALITY IMPROVEMENT

We welcome the revised upward assumptions on tree cutting. Target expenditure on such matters can make a vital contribution to maintenance of supplies at all times and not simply during abnormal weather conditions.

**6. CAPITAL EXPENDITURE
ESQCR**

We welcome the clarification of the Ofgem approach to the standards set out in the Electricity Safety Quality and Continuity Regulations (ESQCR) and the confirmation that the DTI will be undertaking a consultation with stakeholders shortly. We note the assurance contained in the update paper that the appropriate level of costs will be considered in 2008. However, you confirmed to Prospect representatives in an informal discussion that any revision to the expenditure allowance that may be justified as a result of changes to ESQCR will be dealt with on a stand alone basis. Prospect believe that it would be appropriate to restate this commitment in the final proposals.

7. INCENTIVES

We know that Ofgem continues to discuss options with companies. In our earlier submissions we put forward the view that there needed to be an improved allowance to reflect the need to retrain and retain suitable skilled staff at all levels in the industry. We remain unconvinced that revised allowances will adequately meet the needs of the industry. In the past, a simplistic focus on overall staff numbers has led to a degradation of the skillsbase and a growing shortage of young engineers, technicians and craftspeople.

Since our response to the September consultation paper, further evidence of employer as well as Government concern at the evident difficulties in this area has emerged with the announcement that the DTI together with the Electricity Networks Association will be holding a seminar to explore the different recruitment difficulties surrounding the industry. Further, that in other English speaking countries elsewhere in the world who have adopted the privatisation path pioneered in this country are themselves faced with an identical set of circumstances. It is probable that some of these countries will attempt to attract students currently undergoing training in the UK. In some cases, as part of initiatives that had been widely welcomed by all stakeholders designed to alleviate recognised potential difficulties in this area. We are concerned that students will be induced to exploit employment opportunities offered by the acquisition of their newly acquired qualifications in overseas countries rather than in the UK. We believe this to be a real possibility. In these circumstances we would urge Ofgem to revisit the proposed

levels of operational expenditure allowances. It will be absolutely vital to the maintenance of robust electricity distribution network throughout the UK to ensure that the DNO's are able to attract and retain a cadre of permanently and appropriately skilled staff. Achievement of this objective will be the best insurance to ensure maintenance of a reliable electricity distribution system that is so vital to the nation's economic well being.

We would re-iterate our previously stated view that without greater investment in staffing levels by DNO's facilitated by higher expenditure allowances, we do not believe efficiencies sought by this review will be achieved.

You confirmed to Prospect representatives that you would probably be consulting interested parties on the future of Regulation for the electricity industry during the course of the next few years. Prospect is happy to reaffirm that it will welcome an invitation from you to participate fully in this process.

In our previous submissions we forward the view that there had to be substantial increases in the capital expenditure if the desired aim of improving and maintaining the UK's electricity networks were to be achieved.

Whilst £.2bn increase set out in the latest consultation paper is a modest improvement to that proposed in June we still have some concern that the levels will be inadequate to meet all contingencies.

There is real concern that the proposed levels would be insufficient to meet the replacement costs of replace ageing assets requiring renewal during the next five years, 0of the price control period.

8. PENSIONS

We believe that the proposed method of calculating the level of allowances appear to be both fair and reasonable to all parties. We would, however, welcome a restatement of the oral assurances previously given to our representatives that the final figures provided by DNO's must be supported by full actuarial certificate confirming that the figures are an accurate extract from the accounts of the relevant group of the ESPS. Plus, a statement endorsed by the Trustees of each group of the ESPS. This seems to us to be vital for the transparency of the exercise, guaranteeing the authenticity of the figures and at the same time, acknowledges the legal responsibilities of the ESPS Group Trustees.

We are also pleased to confirm our earlier statement that we are content with the proposed pension deficit recovery period of 13 years, on the basis that this was the view of the actuarial profession. We are aware that some DNOs believe that there should be a shorter period. Whilst we recognise these arguments may be related to the age profile of particular groups of the ESPS, we believe that in the interests of fairness and consistency that the advice of the independent professional actuary should be accepted. By adopting a common standard, Trustees will be placed in a position to make informed projections for the future.

In response to the September document, you confirmed to Prospect representatives that the "pass through principle" would be extended to the Transmission of price control review. We would re-iterate our view that it would be helpful if Ofgem were to include a statement qualifying this position in the November final document.

9. COST OF CAPTIAL

We recognise that there has been some shift in the cost of capital. By increasing the proportion of income dependent on quality incentives that has a substantial benefit to customers, the risk to DNOs is increased and we believe that a marginal increase in the

cost of capital is required to encourage DNOs to take the innovative investment in technical management of the system and refining existing technology if customers are to see a further significant drop in CMLs and CIs.

10. MERGER COSTS

Whilst we recognise that the merger of franchise area reduces the operating costs of DNOs, we would request that the merger benefits are carefully calculated on a phased case-by-case business.