

Electricity Distribution Price Control Review Initial Proposals

Ref: 92/09

Response from Energy & Utility Skills

1. Overall Energy & Utility Skills (EU Skills) welcome Ofgem's recognition of the Workforce Renewal challenges across all Networks.
2. The individual DNO C4 submissions to Ofgem represent an acknowledgement of the work done by EU Skills together with all the DNOs in quantifying the scale of the challenge and in producing a credible model against which to monitor and forecast progress in tackling the recruitment and training of a skilled workforce.
3. As a result of the modelling work done and the projections of people leaving the industry, we feel that it is important to recognise that although these proposals specifically relate to DPCR5, these challenges will continue over (and beyond) the next 15 years. This work also indicates that any deferral of expenditure/recruitment will result in greater challenges in future DPCR periods and as a consequence it is in the interests of all parties to continue to proactively address these issues in DPCR5. Adequate resourcing is critical and funding is a key element of this resourcing.
4. We welcome the invitation from Ofgem to work with the industry in developing a reporting framework for DPCR5 that meets the needs of all from both a regulatory, operational and skills planning perspective. We believe this will work to the benefit of all and we have commissioned a working group with representatives from each DNO to develop a draft reporting framework.
5. Overall the Initial Proposals are aligned with the modelling work. The C4 submissions broadly reflect the outputs from the model (which was updated by DNOs to allow for changes to workload and other factors that occurred between completion of the EU Skills model and the final regulatory submissions). Ofgem have made adjustments for both workload and the balance between DPCR4 and DPCR5 spending. Both adjustments are the result of alternative interpretations of the data and investment in Workforce Renewal. EU Skills consider these as specific issues to be debated between Ofgem and individual DNOs.
6. However EU Skills has three main areas of concern going forward and would seek clarification on these topics:
 - a. Ofgem have indicated (in Figure 4.2) that there is £71.4m included in the baseline allowed costs. There seems to be some uncertainty around this and whether the benchmarking analysis is fair and equitable in relation to the comparison of DPCR4 Workforce Renewal costs and the impact it has on the DPCR5 allowances. In order to achieve greater transparency we would ask for clarity as to what is included in this figure and how it affects the DPCR5 allowance.

In terms of the £71.4m, we would prefer to see all Workforce Renewal Costs removed from the baseline calculation and treated as a separate allowance. We believe it is possible to do this and that the industry would support this approach.

- b. We understand that the additional cost allowances will flow through to allowed income in the ratio 15% fast money (OPEX) and 85% slow money, into RAV. The rationale for this is not clear and we wish to understand how this has been determined. Our modelling indicates a clear profile of cash requirements during DPCR5 and we would be concerned about the impact this funding profile may have upon Skills Investment over the coming years.
- c. Although Ofgem have indicated they have considered the issue of Workforce Renewal for the Contractor Workforce we are not clear how this flows through to the allowances. The funding of Contractor Workforce Renewal was included in our initial modelling work and, as a number of the DNOs use contractors extensively and the supply and demand of Contractors has a significant impact upon maintaining an adequate pool of skilled people, we would wish to understand how Contractor Workforce Renewal would be funded within these proposals.



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