



UNITE'S RESPONSE TO OFGEM'S CONSULTATION DOCUMENTS

- Electricity Distribution Price Control Review Initial Proposals (reference 92/09)
- Price Control Pension Principles Second Consultation Document (reference 96/09)

Introduction

This is the third submission by Unite to the current distribution price review and this submission covers both the initial proposals paper and the pensions consultation document.

Our previous submissions have highlighted the productivity gains that can be made through:

- The recruitment and training of key operational staff
- The personal development of craft personnel
- The need for companies to restructure their operations

Unite has also submitted evidence relating to regional pay and commented on pensions.

Recruitment and training

We are pleased to note that OFGEM has made allowances for training. However we have demonstrated the wide range of training provision across DNOs and whilst we recognise that OFGEM has reduced some allocations we believe it should financially reward those companies who have consistently recruited and trained apprentices and developed them into new productive roles.

Companies who have disputed some of the data that they freely provided have not resubmitted data in the format requested in order to correct “misapprehensions” and so our previous submissions remain unchanged.

Personal development and productivity

Steve Smith and Rachel Fletcher met shop stewards from all DNOs to hear first hand the frustration expressed by them in terms of the development of the technician grade across DNOs. This supported the survey information previously supplied to OFGEM where only one company WPD had effectively removed the demarcation restricting the issue of safety documentation to highly paid engineers. The productivity gain is not restricted to carrying out the documentation with lower paid staff but cuts down on waiting time and personnel on site.

It is no coincidence that the initial proposals document identifies WPD as a top performer:

“Overall, we consider that the results of our analysis and the ranking of companies that emerges when all elements are brought together, is consistent with what we know about DNO groups and the way that they run themselves. For example the two DNO groups that have the smallest gap between our proposed allowances and their forecasts – SSE and WPD – both submitted relatively challenging forecasts at DPCR4 and have spent close to their DPCR4 allowances. We have made cost visits to the DNOs over a number of years and the views we have gained from these reinforce the findings from our cost assessment.”

(Electricity Distribution Price Control Review Initial Proposals – Allowed Revenue – Cost Assessment 7.10)

The productivity gains for WPD reveal themselves in terms of operational efficiency and also very low capital unit costs. WPD have informed Unite that if their unit costs were brought to the all DNO median level their capital allowance would be 18% higher and if they were removed from the calculation of the median then they estimate that capital costs would increase across all companies by approximately £100M.

The other benefit that accrues by devolving duties are improvements in CMLs. On a normalised basis WPD is the frontier performer with CMLs at 68% of benchmark compared to SPN at 141% of benchmark. The value of WPD's performance in terms of its influence on the benchmark is £38M i.e. targets would be higher if WPD were excluded from the bench mark and hence the value of this shift under IIS would be £38M.

Regional pay and contractor rates

Unite is amazed that despite the evidence it provided on regional pay, where clearly sector pay has only small variations across the UK with the exception of London bounded by the M25, OFGEM have applied regional pay adjustments. The JIB agreement governing pay and conditions for workers in the electrical contractor sector is the largest of its type and again mirrors the arguments UNITE has put forward.

The Alliance contractor open book adjustment is probably the most inexplicable adjustment made in the proposals as its effect is to ignore the indirects of an outsourced labourforce whilst a direct labourforce has those indirects exposed and factored into its perceived efficiency. The obvious effect of this is to incorrectly bias a company's decision toward outsourcing not on the basis of efficiency but the regulatory treatment.

Pensions

The Electricity Act 1989 provided protection to employees ensuring that a defined benefit pension provision will be required from DNOs for the

foreseeable future. We support OFGEM's published six principles that underpin how the allowances for pension funding are set. Unite believes that the principles achieve a fair result, balancing risk cost and benefit between companies, customers and employees.

The consultation documents primary question is to ask whether to retain the status quo or whether incentives are needed to ensure NWOs continue to track comparable companies. If incentives are introduced then schemes would need to be compared on a consistent basis (conformed).

The document also considers whether the 2010 deficit should be quarantined and dealt with separately from ongoing funding in future reviews and if so then ongoing costs could be benchmarked as part of total payroll costs irrespective of the manner of pension provision.

It also incorporates the GAD report which gives a perspective on whether Network Operator (NOW) schemes are out of line with those of comparable unregulated businesses.

The Gad report concluded that:

- Funding levels, actuarial assumptions and investment performance are not materially out of step.
- Company contribution rates are higher than in the UK private sector schemes
 - Private sector 15-16%
 - Electricity 20-24%
 - Scots schemes 29-33%
 - Gas 31-39%
- Closing or converting schemes to defined contribution reduces risk.

Our observations in relation to the GAD review are that:

- Contribution rates cannot be looked at an isolated point in time since customers have benefited in the past from contribution holidays when the schemes were in surplus. It must be born in mind that DC contribution rates at a different point in time will remain at the same level and DB contribution rates could be lower or zero.
- Investment performance is linked to time and equity mix.
- Electricity schemes are protected and conversion would be prohibitively expensive.
- We are pleased to note that the report does not seek to criticise WPD for leaving its scheme open since it recognises that it is a

relatively well performing scheme and that it contributes to an employment package that facilitates productivity and upper quartile cost performance.

Turning to the main question the GAD review supports the funding levels, actuarial assumptions and states that investment performance is not materially out of step and so what incentives are necessary?

Companies have some influence over trustees but trustees manage the funds and so it does not seem right that companies should be incentivised in an area they cannot control or manage.

Concluding remarks

UNITE firmly believes that management, staff and unions working together can deliver world class service at low cost through high productivity and this has been clearly demonstrated. Our constant theme has been to encourage OFGEM to incentivise companies to use a willing workforce in a more productive way and streamline management levels.

We are dismayed by some of the adjustments made to operating costs in the latest paper which appear to prop up the weak through regional pay adjustments and also distort the comparison of direct labour and contractor costs through the treatment of indirects.

From a pension viewpoint clearly electricity schemes benefit from the protection of the 1989 Act and having read the paper there do not seem to be any logical steps that could be made to encourage improved performance as the governance of the schemes is relatively independent of the individual companies. We believe that this situation can only result in leaving the current arrangements as they stand and as a union clearly we will defend the pension rights of our members.