

Professor Paul Grout
The Gas and Electricity Markets Authority
9 Millbank
London
SW1P 3GE

9 September 2014

Dear Professor Grout

ONS DATA SERIES ON EMPLOYEES IN CONTINUOUS EMPLOYMENT

At the Committee of the Authority meeting on 4 September 2014 you asked a question about a chart we presented which compared pay rises for all private sector employees and with those in continuous employment. Specifically, you asked whether the data was available for earlier years. You also asked about potential reasons for the gap between the two sets of figures.

The short answer to your first question is no. The data was added to the annual ONS bulletin on the ASHE, for the first time, in December 2013, and no earlier figures were published. We have checked with the ONS and it has confirmed that it has not calculated the figures for earlier years. We can only assume that the ONS chose to include this information as a new item in its latest ASHE bulletin because the figures reveal something interesting in a context of a rebalancing economy.

To answer your second question, the only example the ONS gives as a reason for the gap between the two figures is that 'when new jobs are created at the lower end of the earnings distribution, or when highly-paid jobs are lost, this exerts a drag on the median figure.' It states that, by looking only at those in continuous employment it is 'removing the influence of the changes in the composition of the labour market'.

As we said in the meeting, the Authority should ensure Ofgem does not assume we can achieve low pay growth based on figures that have been dragged down by structural change in the wider economy, given that this has not affected us. The key point that the data shows is that private sector employees in continuous employment have continued to receive pay rises at a similar level to the bottom end of the pre-recession range for these employees (based on all the available data).

Because Ofgem has not taken account of this break in the data set in the analysis that underpins the draft determination, Ofgem has inappropriately presumed that that DNOs could have achieved average pay rises in 2013 and 2014 at less than 2%, even once Ofgem's estimate of a specialist premium is factored in. Not only does this not make proper use of the available information, but it simply does not reflect the economic reality for any stable employer, let alone one which uses a high proportion of specialist and skilled labour. And it does not match the benchmarks which can be calculated from within the sector by comparing actual DNO pay deals.

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As we explained at the meeting, our principal difference with Ofgem on the subject of RPEs is not about the long-term slope of the line, but about the starting point: for example, the data shows that there is a specialist labour premium and Ofgem recognises that this is the case, but Ofgem has not applied this premium to 2014-15 and 2015-16. Correcting this and other errors that we referred to in the meeting would align Ofgem's approach with that of the CMA and with the most aggressive of the DNO forecasts.

I trust this will answer your question, but please let us know if you have any others and we would be happy to assist.

I am copying this letter to David Gray and Dermot Nolan in case they wish to share it with other members of the Authority.

Yours sincerely

A handwritten signature in black ink that reads "John France". The signature is written in a cursive style, with the first name "John" and the last name "France" clearly legible.

John France
Regulation Director