

12 March 2019

RIIO Team
10 South Colonnade
Canary Wharf
London
E14 4PU

Dear Sirs,

RIIO2 Sector Specific Methodology Consultation – Workforce Resilience

Please find enclosed the Energy & Utility Skills response to your consultation regarding the information you expect to see in companies' business plans for RIIO-2.

Energy & Utility Skills fully support your proposals to explicitly include workforce resilience as a requirement within the final RIIO-2 approach and business plans.

Following consultation with Ofgem in 2018, the National Skills Academy for Power (NSAP) set up a GB-wide consultation group for power and gas transmission and networks to bring a dedicated focus to the subject of human capital. NSAP is a strategy group within Energy & Utility Skills.

The group worked through available labour market intelligence, workforce policy, comparable utility regulation and the main workforce resilience issues, in order to be able to share evidence and recommendations with Ofgem pre and post the Sector Specific Methodology release. Energy & Utility Skills has engaged with the main trade unions and key supply chain contractors.

This response is based on the proposals set out in your RIIO-2 Sector Specific Methodology (18.12.19) and the RIIO-2 Business Plans Draft Guidance (21.12.19) Document. The NSAP group remains in place to assist the RIIO-2 process, and has already offered to assist with pre business plan submission thinking around managing extraneous labour issues, building sectoral collaboration and developing measures of success.

We would be pleased to meet as needed, and I look forward to hearing from you.

Yours sincerely



Nick Ellins
Chief Executive

Energy & Utility Skills Response – Workforce resilience

We fully support the following Ofgem recommendations and principles:

1. Ofgem including workforce resilience as a formal requirement of RIIO-2 business plans
2. The Ofgem expectation for companies to have a sustainable workforce strategy
3. The workforce strategy element of companies' Business Plans not only covering the RIIO-2 period, but extending out further to enable efficient companies to set context for workforce resilience over the longer term, including for their direct workforce and supply chains (reflecting the level of work the network companies plan to outsource)
4. Ofgem's expectation that these plans will lead not only to a future workforce which better reflects the diversity of the communities they serve, but also to skills development, increased productivity and the advanced technology skills required to support the energy system transition
5. Ofgem challenging and benchmarking companies RIIO-2 business plans, where data is available, to ensure they are robust, proportionate and efficient
6. Efficient and evidenced costs for workforce resilience being funded by Ofgem as part of the RIIO-2 revenue allowances
7. Ofgem's welcome recognition that where this involves recruiting increased numbers over and above those required to operate efficiently in the shorter term (e.g. additional apprenticeships / technical graduates), companies are encouraged to evidence the longer-term benefits of such recruitment
8. The Ofgem definition that resilience is not just about network assets; it is also about the people and processes put in place to build, operate, repair and maintain those assets, particularly when networks are under stress. Human resources with the right skills are essential to the safe and reliable operation of a network, without which the ability to deliver the services expected by customers would rapidly deteriorate. Workforce resilience is about ensuring companies establish and maintain a sustainable pipeline of the technical skills that are vital to maintaining the level of service customers expect over the longer term
9. The Ofgem statement that both the Energy and Utilities Skills Groups and Trade Unions had highlighted the skills shortage facing the industry and the agreement to consider (within the sector-specific methodologies) measures to ensure that energy companies' workforces have the necessary skills and resources to continue delivering the service expected by consumers over the long term

10. Ofgem awareness of the increasing challenge for network companies in accessing the specialist technical/engineering skills they need to develop, construct, maintain and operate their networks and recognition that recruitment and retention of the right skills needed by the sector is an increasingly challenging endeavour
11. Ofgem's statement that failure to invest in these skills could ultimately result in networks becoming less reliable and more costly to operate in the future
12. Ofgem's recommendation that regulated companies should be required to establish and implement a strategy to ensure a sustainable pipeline of skilled resources in sufficient quantities, and at reasonable costs, to deliver the services their customers expect over the longer term
13. Ofgem's requirement that companies submit a sustainable workforce strategy as part of their wider Business Plans under RIIO-2, taking on board any input from their company's User Groups, Customer Engagement Groups and Ofgem's Consumer Challenge Group. These plans should identify the areas where attracting and retaining skilled personnel is becoming increasingly challenging and demonstrate how existing approaches to recruitment and retention in these areas need to be improved to address this challenge
14. Ofgem's statement and proposal that while some of these issues are within the control of network companies, the more extraneous factors could potentially create uncertainties that are more difficult to plan for and manage. Where these extraneous factors introduce risks that companies cannot manage themselves, these should be explained with supporting evidence
15. Ofgem's opening statement to stakeholders at the RIIO-2 Sector Specific Methodology Consultation Workshop in London 8 February 2019, that: *"We want to make sure that the labour force is maintained and human capital is kept in the industry"*
16. Ofgem's statement on anticipatory investments (4.6, page 17) that *"where potential investments by gas and electricity networks are justified on the basis of being in the interests of energy consumers, it may be consistent with our principal objective and other statutory duties to support the delivery of these"*. Workforce resilience is an essential component of operational resilience, and investment in the energy sectors labour force and productivity is directly in the interests of current and future consumers

Energy & Utility Skills Response – Workforce resilience

We propose for the following Ofgem consultation recommendations and principles:

17. ***Managing extraneous labour market factors*** - Ofgem's proposal that while some of these workforce resilience issues are within the control of network companies, the more extraneous factors could potentially create uncertainties that are more difficult to plan for and manage. Where these extraneous factors introduce risks that companies cannot manage themselves, these should be explained with supporting evidence. Uncertainty in this area could be addressed through indexation of Real Price Effects (RPEs)

Energy & Utility Skills recommendation regarding extraneous factors

We support the principles set out by Ofgem, and offer the assistance of the NSAP group in the post consultation and pre business plan submission stage, to help better define the possible extraneous factors and levels of risk. A number of these are likely to be based around changes within the UK economy and strategic decisions by the UK Government, and so **it is important that Ofgem do not leave this area to each individual company to try to manage alone**. The NSAP group can help build routes to evidence, and agree the best way to accommodate the many variables in to optimal approaches to regulatory price setting.

Companies discussed a variety of potential extraneous challenges, including European exit, rising labour market prices at a time of record low employment, required adaption to System Operator, carbon economy challenges and competing for labour against other highly competitive market sectors. This latter discussion considered issues such as: the largest recruitment drive in BT Open Reach's history, which is seeking over 3,500 trainee engineers from the same talent pool as energy utilities; an equivalent drive from the water sector in England and Wales as they are required to meet enhanced leakage and metering commitments and the significant current labour market draw to major rail infrastructure and digital projects.

We recommend that Ofgem request that labour market resilience is included in the National Infrastructure Commission Infrastructure Resilience Study Scoping

Consultation, which closes 1 April 2019. This will help to ensure that Ofgem, the energy sector and consumers are increasing assisted by central and devolved government policy in this area. The review was initially commissioned by the Chancellor. Energy & Utility Skills has already responded to the consultation calling for this, and referring them to the workforce resilience requirements of the RIIO-2 consultation.

18. **Workforce Resilience Measures - Question CSQ27**

Ofgem is seeking views as to measures that might be established to hold companies to account for delivering their workforce resilience plans, without distorting optimal resourcing decisions.

Energy & Utility Skills recommendation re RIIO-2 measures – The NSAP group discussed this question in detail at a workshop on 12 March 2018. Western Power Distribution were written to separately in advance to seek their views. The views of the attending group varied as to the level of detail of any approach, but **there was consensus** that any company that has its submitted business plan funded under RIIO-2, should be able to evidence its delivery of its explicit business plan commitments and strategic objectives post the Final Determination.

Companies looked at a range of possible approaches, from the macro to the micro, and discussed how their use might bring value to their consumers and customers, and also complement the outcome-based approach of the whole RIIO-2 methodology. Ofgem is indicating they wish to see RIIO-2 ensure companies retain full control of their business plan and full accountability for their delivery performance. **There is again consensus on this point.** The key conclusions were:

A more informed dialogue and awareness - Labour Market Resilience collaboration

Another **point of consensus**, was that a number of the macro issues most likely to detrimentally impact the labour market costs and available human capital operated and needed by the energy sector, come from areas of domestic-non-utility, UK econometric and International labour market policy.

In this consultation, Ofgem raised the question of using regulatory mechanisms where issues are completely unexpected and hard to predict. Companies see merit in this approach, but want to have a new level of collaborative dialogue with the regulator before business plan submissions so that all parties are conversant with the emerging challenges and available evidence. This response **formally offers a strategy session on extraneous factors** for regulated companies with Ofgem, facilitated by NSAP and Energy & Utility Skills.

When the CEO's of Ofgem and Ofwat met with the CEO Council of the Energy & Utilities Partnership in December 2018, this better connection on macro-economic and direct industry issues was discussed at length, and it was agreed that the group will reconvene every 12 months. **The next meeting with the CEO of Ofgem is due to take place in December 2019.**

In addition, Energy & Utility Skills were asked to write to the two regulator CEO's by the summer of 2019, outlining the **main perceived policy 'pinch points' for relevant labour market resilience and skills issues**. This would enable a joint focus to secure the optimum sustainable development and resilience for the entire sector. This assessment is underway at the time of writing.

Macro measures

Companies have varying perspectives on this point, and so everyone who attended was asked to give Ofgem their own views in their individual consultation responses, should it in any way vary from this document. This will ensure that Ofgem get the full breadth of the debate. However, the general view is:

- a) The highest and simplest level of macro measure, is for Ofgem to **require that each company does have a workforce resilience strategy and is able to explicitly demonstrate its existence through regulatory dialogue**. This directly complements the direction of travel already set out by Ofgem in this consultation
- b) Companies were then generally open to **setting out their milestones for achieving their individual workforce strategy**, and briefing Ofgem individually on their specific progress against these and internal business approach. Each workforce strategy will be tailored to each companies operating and geographical circumstances, so this approach should give the regulator the certainty it needs that individual companies are acting sustainably and efficiently, whilst not constricting their decision making or approach to achieving optimal results
- c) Building on the 'more informed dialogue with the regulator' point raised in this section, companies are seeking a structured and mature dialogue with Ofgem around workforce resilience. There is potential for Energy & Utility Skills/NSAP to act for the regulator, and bring together an **industry-led high level management dashboard or report** either annually or at certain agreed times across the RIIO-2 period. This strategic report could provide some agreed areas of direct comparison, but also give companies the freedom and mechanism to state to Ofgem their own pro-active work to achieve workforce resilience. This report would be a voluntary initiative, and help Ofgem demonstrate progress whilst showing the use of *Better Regulation* principles in action.
- d) Companies across utilities have been robust in explaining that workforce resilience is a long-term endeavour. They are unable to execute sustainable labour market strategies just for any one price period, and welcome the consultation reference to Ofgem seeking planning and thinking beyond the price control period and the potential for companies to increase their recruitment over and above those immediately required. Generally, **companies were agreeable to explicitly setting out for the regulator how they will connect the RIIO-2 period to the longer term**, and have robust dialogue around their approach and individual challenges

Micro measures

Extensive discussions took place regarding the variety of measures that might be assist in understanding whether a company is resilient to labour market forces. **Companies have varying but very positive perspectives on this point**, and everyone who attended was asked to give Ofgem their own views in their individual consultation responses, should it in any way vary from this document. However, the general view is that **a series of highly prescriptive measures placed within the RIIO-2 settlement would be in direct contrast to the overall aim of the regulator staying 'hands off' and seeking company reassurance on business critical matters.**

Companies do however see tangible value in their businesses demonstrating how they are doing in areas such as: coverage of business critical roles; diversity & inclusion from differing backgrounds; age demographics; reflecting the composition of communities they serve; apprenticeship investments; upskilling; how they are competing for talent; competition from other business sectors and other known and impending operational risks; skilled staff retention and many others.

The group concluded that in these areas that demonstrate a pro-active and coherent approach to human capital, they are typically already required to demonstrate it to show their business, Board, Customer Challenge Group, community, investors, unions and many wider stakeholders how they are delivering sustainable business and good corporate governance. It was therefore **concluded that a regulatory measure would be an unnecessary duplication** of more sophisticated pressure that already exists to a degree, and will increasingly be applied to companies delivering frontier performance. All present saw it as the right way for the market and key interest groups to recognise the high-performing businesses and pressurise companies that were laggards, without adding unnecessary regulatory bureaucracy.

One example tested, was for any possible measure for the workforce of the company reflecting the social and diversity profile of the community served. It was concluded that Ofgem could never achieve one single measure of success, given that each energy company faces a totally unique local community and workforce situation. It is **inappropriate to try to regulate something that is so subjective, but important.**

This in no way is intended to deflect from their accepted accountabilities and responsibilities, but seemed an intelligent way to use *Better Regulation* principles and require **Ofgem only to have to seek deeper investigation should there be clear evidence of a market failure.** Companies were very comfortable to explain to the regulator what they are doing across these areas, and where relevant to their individual circumstances, build it in to their workforce resilience strategic approach. What they already do as companies is extensive, and Energy & Utility Skills feel that Ofgem would be impressed by the inputs and outcomes underway.

Energy & Utility Skills Response – Workforce resilience

We comment on the following Ofgem consultation recommendations and principles:

19. Ofgem has set out on page 8, para 2.11, how it will consider company proposals. It mentions that it will test whether “*the activity in question is best dealt with through the price control, rather than through a government body responsible for the public interest in that area.*” In the areas of workforce resilience, **we urge Ofgem to continue with its RIIO-2 suggested approach**, as no other agency is providing a strategy or policy cover for energy companies. As an example, the recent National Audit Office report on the HM Treasury Apprenticeship Levy confirmed that the Department for Education (the body responsible for skills policy in England) “*relies on market mechanisms to address skills gaps in the economy.....*” and “*does not decide where, or at what level, apprenticeships take place*”. The English government skills policy also now has 15 professional routes only for apprenticeship investment, and none of these consider the energy or utility sector or have representatives on their steering groups. The proposed RIIO-2 approach to workforce resilience is therefore vital.
20. We note the Ofgem encouragement of companies to collaborate to establish a common approach to encouraging **school leavers/college leavers/technical graduates** into the industry, possibly involving the creation of dedicated technical academies for developing key utility skills. Energy & Utility Skills and NSAP are in dialogue with energy companies for possible increased collaboration in this area, and Ofgem would be welcome to be involved in any future plans.
21. We note that Ofgem wish to see network companies’ sustainable workforce strategies submitted as part of their RIIO-2 Business Plans to secure a workforce that better reflects the **diversity** of the communities they serve.

Energy & Utility Skills set up the *Energy & Utilities Skills Partnership* in 2016 to develop the first ever UK skills strategy for the utility sector. It has twenty-eight Chief Executives and Managing Directors on its Council, representing gas, power, water and waste management. This group has led the work that then cascades right across the eighty companies that comprise the full Energy & Utility Skills membership.

This initiative is helping energy companies to optimise their approach to school leavers, college leavers and graduates, and their engagement on the whole has been exceptional.

There are many examples of the developing partnership, which include:

- Launching the first ever utility diversity and inclusion commitment, currently supported by thirty-two companies with strong energy participation
- Creating a strategic partnership with the main representative body for the key colleges in England (Collab) and building an equivalent in Scotland via the Energy Skills Partnership

- New initiatives to generate mass talent attraction from those early in their career, reaching over two million individuals in the first year with over 50% female inquirers
- Assisting the creation of the Institution of Primary Engineers, to generate new engineering talent from primary school and encourage its longevity in the sector
- Being in the vanguard of delivering English apprenticeship policy reform, being responsible for one in every five apprentices graduating by the summer of 2018
- Creating a national partnership with the Duke of Edinburgh's Award to build confidence and personal resilience in the 21 to 25 year old workforce
- Partnership working with universities individually, and also as part of the Energy Research Accelerator university coalition

22. Labour Market Resilience – Energy & Utility Skills would be pleased to stay in close collaboration with Ofgem, to ensure and guide the optimum workforce and skills environment for the energy sector. This partnership can also help Ofgem demonstrate clearly how it is meeting its statutory duty to sustainable development and meeting its social and environmental obligations.