



Open Letter Consultation on approach to setting the next electricity distribution price control (RIIO-ED2)

Submission by Prospect to Ofgem

October 2019

Introduction

Prospect represents 145,000 engineers, scientists, technical specialists and managers across the public and private sectors, and is the union of choice in the UK for managerial and professional employees. For more than a century, Prospect, and its predecessor unions, has represented managers and engineers in the electricity supply industry, giving us a unique insight into the challenges and opportunities facing the UK electricity sector. This response has been drawn up in consultation with these members, including those working in the energy distribution networks. We believe it is essential that their collective expertise and experience has a central place in the formulation of policy and operational frameworks.

Initial remarks

As we have said in response to previous price control consultations, Prospect does not believe that the current system of regulation is working in the long-term interests of either workers or consumers. Experience over the past thirty years has clearly exposed the limits of the current approach to regulating the network monopoly businesses, and we believe an excessive and unsustainable focus on cost cutting has frequently come at the expense of other policy objectives. As we have detailed previously, pay levels, health and safety, and workforce development and renewal have all been undermined, even as investor returns have continued to grow.

We firmly believe that the energy supply workforce is reaching a crisis point. Prospect's own research into the state of the workforce suggests levels of stress have been rising rapidly, as workloads have grown and staffing levels fallen. There is widespread discontent and low morale, with many of those working in the sector deeply unhappy with poor management practices and a relentless focus on cutting costs. At the same time, a demographic challenge in the form of a rapidly aging workforce is not being adequately addressed. Focus group research we conducted earlier this year found that many engineers working in the industry believe employers are failing to properly plan for an impending wave of retirements among experienced network engineers in the next decade.

Many of Prospect's concerns about workforce resilience are echoed in a recent report commissioned by the Energy Networks Association from the Health and Safety Laboratory (HSL) on the role of Senior Authorised Persons (SAPs) and Competent Persons (CPs) in the electricity networks. The report, which has yet to be published, highlights excessive workloads and understaffing as key barriers to SAPs and CPs performing their roles safely and effectively. Similarly, the report also found that poor fatigue management practices, as well as a persistent culture of blame in response to safety incidents, are also posing significant barriers to creating healthier and safer working conditions in the electricity industry.

Findings such as these deserve urgent attention, and a credible response. If left unaddressed, this mounting workforce crisis risks undermining the resilience of our energy networks at precisely the moment they need to be ready to face the challenges posed by decarbonisation and technological change.

Responses to select consultation questions

Question 27: Ensuring DNOs remain resilient to the challenges presented by an ageing and changing workforce.

We welcome Ofgem's initial view that there is a need for measures to ensure employers take workforce resilience seriously (Open Letter, p17). As we have stated above, this issue has been neglected for far too long, and we now face a situation where skills shortages, excessive workloads, high levels of stress, and a lack of diversity are contributing to a serious workforce crisis.

We were concerned by the RIIIO-T2 sector methodology decision not to introduce specific output measures with respect to workforce resilience, and only to require employers to outline how they would address this issue in their business plans. As we outlined in a previous joint trade union submission, we feel strongly that there is a need for concrete target-setting in this area to ensure that employers move from aspiration to action. We believe the growing signs of a workforce crisis are evidence that employers are not currently taking the underlying issues seriously enough.

We have already put forward suggestions for some of the measures that could be introduced to track company performance on workforce resilience (the joint trade union proposal for resilience output measures, submitted in August of last year, is attached), and whilst there are no doubt alternative approaches that could be taken, we feel strongly that targets of some kind are a necessity.

Proposal for workforce resilience output measure in RII O-2 framework

Joint submission by Prospect, GMB, Unite the Union, and
Unison to Ofgem

August 2018



Introduction

As outlined in the joint trade union submission to the RIIO2 framework consultation, we have ongoing concerns about the impact that the regulatory regime has had on the workforce to date. Our analysis shows that pay levels have suffered, skills issues are becoming acute, progress on health and safety risks being derailed, while diversity and equality gaps remain significant. Given the scale of the changes the industry is experiencing, and the formidable challenges ahead, particularly in terms of workforce development and renewal, we have serious reservations about plans to implement a tougher financial regime in RIIO2 without appropriate measures to protect vital investment in the workforce.

This is a view widely shared by other key stakeholders as well. In their submission to the RIIO-2 framework consultation, the Energy and Utility Skills Partnership (EU Skills) stressed that there is “no current evidence” that government policy alone will address the sector’s skills and resilience needs, and called for “specific resilience action ... through the RIIO-2 framework.”¹ Other regulators in the broader utility sector, particularly Ofwat, are working to enshrine workforce resilience principles within price regulation. The final methodology for PR19, for example, requires companies “to ensure that they have plans in place to secure access to the workforce they need, including transferring knowledge and increasing diversity.”²

Ofgem has already incorporated measures into the price controls which ensure that important areas like asset health and customer service are not jeopardised by attempts to limit company returns. Some aspects of workforce resilience have been specifically addressed in previous price control frameworks as well, particularly the workforce renewal allowance in DPCR-5, which was effectively abandoned in RIIO-1. We are proposing that Ofgem re-implement a similar workforce renewal allowance, alongside a series of additional measures designed to protect the resilience of the workforce as the networks navigate the energy transition.

These measures, which are detailed below, create measurable, meaningful metrics on workforce satisfaction, workforce development and renewal, workforce diversity and equality, and health and safety.

Metric 1: Workforce Satisfaction

- **Companies will be required to measure workforce satisfaction levels on an annual basis, using an appropriate workforce survey.**

¹ EU Skills ‘Response to RIIO-2 Framework Consultation’ April 27th 2018

² Ofwat, PR19 Final Methodology, p85

As we discussed in our submission, we are concerned about the indirect consequences that the regulatory regime has already had on the workforce, and we feel strongly that steps need to be taken to ensure that a tougher financial climate does not lead to further detrimental impacts on workers' pay and conditions. We are proposing that companies be required to survey their workforce annually as a way to measure the ongoing impact of the price control regime on employees, and to allow companies to better respond to any workforce issues that are identified. Taking concrete, regular steps to meaningfully assess workforce satisfaction is an essential prerequisite to building greater employee engagement, improving workforce morale, and boosting productivity.

A workforce satisfaction metric would be in line with similar measures used to determine customer satisfaction ratings, and some form of employee satisfaction survey is already undertaken by many companies. Certain minimum standards for the workforce survey will need to be set, such as minimum response rates and coverage, and the wording and format of the survey should be agreed with the relevant unions.

Metric 2: Workforce Development and Renewal

- **Creation of a workforce development and renewal funding pot, to support skills training, recruitment and retention measures, and other workforce development initiatives. The pot would be ring-fenced and provided on a 'use it or lose it' basis to incentivise proper use of the funds.**
- **Companies would be required to submit detailed proposals for how they would use this funding in their business plans, and report annually on actual levels of spending.**

The sector is facing an acute crisis due to the combination of an aging workforce, persistent shortages of traditional skills, and the challenge of competing with other economic sectors for new, high-demand digital and data skills. The EU Skills Partnership has estimated that the combined power and gas sectors will need to make more than 90,000 new hires by 2025 to replace retiring staff and to meet new skills needs, and a major part of this requirement will be in energy networks regulated by Ofgem.³

The industry and government response to this crisis has so far been inadequate, and action is needed to ensure that our networks have the skilled staff they need to deliver for consumers in the future. We note in particular the recent poll by Utility Week that found 40% of network executives do not have, or are uncertain if they have, a coherent workforce strategy in place.⁴

³ EU Skills, Energy and Utilities Workforce Renewal and Skills Strategy 2020, p30

⁴ Utility Week/Wipro, 'Future of Utilities' survey, 2017

Ofgem has acted in the past to ensure workforce development issues are prioritised by network companies, most recently in DPCR-5 when specific funding was set aside for this purpose. Take up of this funding by network employers was strong, and its effective withdrawal in RIIO-1 has proved to be premature, so we believe there is a compelling case for re-introducing it in RIIO-2.

As in the past, funding should be ring-fenced and provided on a 'use it or lose it' basis to incentivise take up, and should be used to fund skills training and recruitment and retention initiatives.

Metric 3: Workforce Diversity & Equality

- **Companies must commit to reducing their gender pay gaps progressively over the life span of RIIO-2**
- **Companies should augment the reporting they do to comply with the Gender Pay Gap Regulations, by conducting an annual equality audit which would a) determine the impact of existing company policies and practices on workers with protected characteristics, particularly with respect to pay and progression; and b) detail the concrete measures companies are taking to improve the diversity of the workforce.**

Promoting diversity and equality is a critical issue for the energy industry, and needs to be 'mainstreamed' in business planning. Whilst important steps have been taken to start fostering a more diverse workforce, there is still a long way to go to make the energy networks more closely reflect the customers they ultimately serve. Women and BAME workers remain significantly under-represented in the energy workforce, and the recent gender pay gap reports highlight the need to get more women into STEM and managerial roles in the sector.

Action on this issue needs to be seen not only as a basic social justice question, but as an important business priority. Workforce renewal and development efforts, especially in a context where new, high-demand skills are likely to be needed in the near future, will be significantly hampered if the industry continues to be seen as unattractive and unwelcoming to the majority of the labour force.

There is also now a mounting body of evidence that concerted action on diversity and equality will yield significant economic benefits. McKinsey have estimated that achieving gender parity in the UK could add £150 billion to GDP compared with business as usual⁵, whilst the US National Bureau of Economic Research has recently calculated that 25% of the growth in GDP per capita since 1960 has been due to the increased participation of women and workers of colour in the

⁵ McKinsey Global Institute, 'Power of Parity', 2016

workforce.⁶ In a similar vein, recent research by MSCI shows a clear link between increasing diversity and improved firm productivity.⁷

Action on diversity and equality therefore promises to be of benefit to everyone, including consumers, and the energy sector needs to take the issue much more seriously. Government policy on diversity and equality remains weak, and the energy sector has historically been a poor performer; the case for Ofgem to show leadership and push this agenda forward is therefore strong.

In a context where other companies in traditionally male-dominated sectors are taking strong action, such as mining multinational BHP Billiton, which has pledged to achieve complete gender parity by 2025, the measures proposed above really constitute the minimum essential steps that the energy industry should be taking to improve its record.

Metric 4: Health and Safety

- **Companies will be required to measure and report annually on working hours lost due to work-related accidents or illness. They will be required to propose, and justify, an initial baseline target at the start of the price control period, with a progressive target for reduction during RII02.**
- **Annual agreement from local company HESACs that company performance on health and safety has been adequate during the year.**

We remain concerned that the existing health and safety output does not sufficiently incentivise companies to improve safety performance and create healthier working environments. We are also concerned that existing official data collection on health and safety is too limited, and potentially misses growing problems around ill-health and stress. Yet, improved action on health and safety needs to be a priority, and a reduction in time lost due to work-related accidents and ill-health has clear benefits to consumers via improved productivity and a healthier and more engaged workforce.

Therefore, we are proposing to supplement the existing health and safety output with a requirement to report on and set targets for improvement on working hours lost due to work-related accidents or illness. Additionally, given the relatively robust joint company-union structures that are in place with respect to health and safety, we would like to see local Health and Safety Committees (HESACs) report annually on the health and safety performance of their respective companies.

The measurement we are proposing is an improvement on an existing metric (Lost Time Injury Rate) which companies already report on, and as such would

⁶ NBER, 'The Allocation of Talent and US Economic Growth', April 2018

⁷ FT, 'Gender Diverse Companies are More Productive', March 12th 2018

not be a significant departure from current reporting practices. This proposal would refine and standardise a measure which would allow for clearer cross-company comparisons and help identify and address health and safety issues more easily.

Conclusion

The metrics outlined above represent clear, measurable, and meaningful measures by which company performance on workforce resilience can be assessed and improvement incentivised. In many cases they do not differ significantly from current practice or, in the case of workforce renewal funding, are related to measures Ofgem has taken in the past. We therefore consider these proposals to be reasonable and achievable for employers to comply with, and believe that to the extent they push employers to be more proactive on workforce resilience, they would ultimately yield significant benefits for consumers.