

# Northern Ireland Electricity – Transmission and distribution price controls 2012-2017

Response to the Competition Commission's Draft  
Determination by Prospect

**November 2013**

[www.prospect.org.uk](http://www.prospect.org.uk)

## Introduction

1. Prospect is a trade union for professionals throughout the UK. Our members are engineers, scientists, managers and specialists in areas such as defence, energy, environment, heritage, shipbuilding, telecoms and transport. In the energy sector we represent scientists, engineers and other professional and specialist staff in the nuclear and radioactive waste management industries, the wider electricity supply industry and, increasingly, also in the gas industry. We are the largest union in the UK representing professional engineers. Our members are engaged in operational and technical management, research and development, and the establishment and monitoring of safety standards.
2. Prospect welcomes the opportunity to comment on the Commission's draft determination published on 8 November. We would like to raise our concerns over some elements of the draft determination as detailed below, which we believe have been arrived at without reference to evidence supplied to the Commission by both NIE and Prospect. We believe that these elements of the draft determination may not act in the public interest, and may seriously affect NIE's ability to ensure medium to long term security of electricity supply in Northern Ireland.

## Labour RPEs

3. In our opinion the Commission's decision to compare labour costs within NIE with the UK economy as a whole has several risks, not least that the majority of roles at many levels within the energy supply industry (ESI) carry a requirement for an extremely high level of expertise in often safety-critical areas. The sector is also experiencing a severe skills shortage and associated wage growth that is at odds with the wider UK economy, as detailed in Prospect's original submission dated May 2013.
4. Both NIE and the UR in its original price control determination made a distinction between specialist and non-specialist roles. NIE and the UR also agreed on using a premium of 1.25% above general wage inflation to forecast specialist labour inflation. Prospect are concerned that the Commission has chosen to provisionally remove these distinctions in its draft determination. It is important to understand why these are relevant to assisting NIE to maintain a highly skilled workforce. The business is relatively isolated geographically compared to DNO counterparts in GB, without a ready pool of highly skilled labour upon which it can draw. NIE therefore out of necessity operates a business model where it up-skills its own workforce rather than filling specialist roles with external candidates, and as such many employees operate at a higher level for their grade relative to other Energy Sector employers, utilising a broader set of skills. If NIE cannot retain employees in these key roles once it has invested such time and money in their training, then that has a serious effect on the business and its ability to operate in the public interest.

5. Section 11.42 and 11.43 of the draft determination states that the Commission had provisionally decided to disregard NIE's wage settlement data as a basis for setting the historic labour forecast, on the basis of concern about "a straight pass-through of wage settlements to consumers". Prospect could understand this concern if NIE salary increase settlements had been inefficient, but they are in line with or below relevant industry benchmarks. RPI-linked salary increases have been required for NIE to sustain salaries at market rates to maintain a highly-trained workforce with the key skills essential to effective operation as a DNO, in the face of increasing pressures from other energy supply companies and DNOs keen to acquire those scarce skills. This is evidenced by a six-fold increase in the number of resignations of highly trained engineering personnel from NIE over the past year.
6. Regarding the alternative measures of wage inflation proposed by the Commission, Prospect welcomes the comparison with wage settlements of the GB electricity network companies, but believes that only using data from the three year period 2010-2013 may give an isolated picture. In particular NIE enacted a pay freeze in 2009 that was not experienced by other UK DNOs, and therefore the workforce was relatively further behind with respect to cost of living increases.
7. Prospect believes that a comparison of some of the brought-in labour elements of NIE's costs with JIB hourly rates of pay, as suggested by the UR, may not be appropriate as NIE employs far fewer sub-contractors (less than 19% of the total workforce) than most DNOs in the UK, who subcontract out nearer one third of their work.
8. Prospect is also concerned with the proposed use of the OBR forecast for average weekly earnings for the forward-looking wage inflation forecast (2012/13 to September 2017). The OBR forecast is a new whole-market data set that makes no distinction between specialist and non-specialist roles; this is an issue for NIE as outlined in paragraph 3 above. It also takes no account of the often unique skill sets required by engineering and technical grades within the Energy Supply Industry, or of the well-publicised shortage of skilled engineers in the UK and the effect this is having on real wage increases.
9. Average earnings figures reflect both movements in earnings growth and changes in the composition of the workforce. Recent employment growth in the private sector has been in lower paying sectors of the economy, therefore this has had a downward effect on average earnings growth. However pay settlements have been considerably higher than average earnings figures, according to independent pay specialists Income Data Services. IDS and XpertHR both expect the pattern of pay settlements to be similar next year, but recruitment and retention difficulties are likely to have an upwards pressure on wages in some sectors, including the Energy Sector. A survey of engineering companies by IDS, reporting in October, found that nearly half the respondents had experienced skills shortages in the past 12 months and over one-third had difficulties attracting graduate engineers, which is likely to feed through into higher pay awards in 2014.

10. Use of the OBR forecast for average weekly earnings and the removal of a 1.25% premium on forecasts for specialist labour inflation may therefore leave NIE in an even more untenable position with regard to retaining key highly-trained employees in the business, in the face of severe competition for their scarce skills from across the UK.

### **Efficiency Factor**

11. The Commission's proposal to impose a 1% per year opex efficiency factor from 2010 to the end of RP5 would suggest that NIE is not operating efficiently. Prospect do not agree with this assessment. We believe that NIE are already operating at a high level of effectiveness, as a result of NIE's ongoing efficiency programme, in place since privatisation that has seen the workforce shrink from 3000 to 1300 in 2013. NIE currently has little scope to further improve efficiency given these prior changes, which have resulted in an increasingly high level of workload on the remaining workforce. Prospect is concerned that imposing further efficiency factors on the business will only act to reduce NIE's ability to work in the public interest.